**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**



**FORM 8-K**



**Current Report**

**Pursuant to Section 13 or 15(d)**

**of the Securities Exchange Act of 1934**

**Date of report (Date of earliest event reported): June 13, 2018 (November 19, 2017)**



**MARVELL TECHNOLOGY GROUP LTD.**

**(Exact name of registrant as specified in its charter)**



**Bermuda**

**000-30877**

**77-0481679**

**(State or other jurisdiction**

**of incorporation)**

**(Commission**

**File Number)**

**(I.R.S. Employer**

**Identification No.)**

**Canon’s Court**

**22 Victoria Street**

**Hamilton HM 12**

**Bermuda**

**(Address of principal executive offices)**

**(441) 296-6395**

**(Registrant’s telephone number, including area code)**

**N/A**

**(Former name or former address, if changed since last report.)**



Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

* Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
* Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
* Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
* Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐



**Item 8.01. Other Events.**

As previously announced, on November 19, 2017, Marvell Technology Group Ltd., a Bermuda exempted company (“Marvell”), entered into an Agreement and Plan of Merger (the “Merger Agreement”), by and among Marvell, Kauai Acquisition Corp., a Delaware corporation and indirect wholly owned subsidiary of Marvell (“Merger Sub”), and Cavium, Inc., a Delaware corporation (“Cavium”). As described in the Current Report on Form 8-K filed by Marvell on November 20, 2017, pursuant to the Merger Agreement, Merger Sub will be merged with and into Cavium (the “Merger”), with Cavium continuing as an indirect wholly owned subsidiary of Marvell. The completion of the Merger is subject to regulatory approval as well as other customary closing conditions.

The following audited consolidated financial statements of Cavium are filed as Exhibit 99.1 to this Current Report on Form 8-K and are incorporated herein by reference:

* Report of Independent Registered Public Accounting Firm;
* Consolidated Statements of Operations for the years ended December 31, 2017, 2016, and 2015;
* Consolidated Balance Sheets as of December 31, 2017 and 2016;
* Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016, and 2015;
* Consolidated Statements of Changes in Stockholders’ Equity for the years ended December 31, 2017, 2016, and 2015;
* Consolidated Statements of Comprehensive Loss for the years ended December 31, 2017, 2016 and 2015;
* Notes to Consolidated Financial Statements; and
* Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2017, 2016 and 2015.

Attached hereto as Exhibit 23.1 is the consent of PricewaterhouseCoopers LLP, the independent auditors to Cavium, related to the above-referenced audited consolidated financial statements of Cavium filed as Exhibit 99.1 to this Current Report on Form 8-K.

The following unaudited condensed consolidated financial statements of Cavium as of and for the three months ended March 31, 2018 and the related notes thereto are filed as Exhibit 99.2 to this Current Report on Form 8-K and are incorporated herein by reference:

* Unaudited Condensed Consolidated Statements of Operations for the Three months Ended March 31, 2018 and 2017;
* Unaudited Condensed Consolidated Balance Sheets at March 31, 2018 and December 31, 2017;
* Unaudited Condensed Consolidated Statements of Cash Flows for the Three months Ended March 31, 2018 and 2017;
* Unaudited Condensed Consolidated Statements of Comprehensive Loss for the Three months Ended March 31, 2018 and 2017; and
* Notes to Unaudited Condensed Consolidated Financial Statements.

The section entitled “Management’s Report On Internal Control Over Financial Reporting” included as Item 9A of Cavium’s Annual Report on Form 10-K for the year ended December 31, 2017 is filed as Exhibit 99.3 to this Current Report on Form 8-K and is incorporated herein by reference.

The following unaudited pro forma condensed combined financial statements combining the historical consolidated financial position and results of operations of Marvell and its subsidiaries and Cavium and its subsidiaries, as an acquisition by Marvell, are filed as Exhibit 99.4 to this Current Report on Form 8-K and are incorporated herein by reference:

* Unaudited Pro Forma Condensed Combined Balance Sheet as of May 5, 2018;
* Unaudited Pro Forma Condensed Combined Statement of Operations for the year ended February 3, 2018 and three months ended May 5, 2018; and
* Notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

The section entitled “Risk Factors” included in Cavium’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 is filed as Exhibit 99.5 to this Current Report on Form 8-K and is incorporated herein by reference.

**Cautionary Statement Regarding Forward-Looking Statements**

This document contains certain forward-looking statements within the meaning of the federal securities laws with respect to the proposed transaction between Cavium and Marvell, including statements regarding the benefits of the transaction, the anticipated timing of the transaction and the products and markets of each company. These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “future,” “opportunity,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are predictions, projections and other statements about future events that are based on current expectations and assumptions and, as a result, are subject to risks and uncertainties. Many factors could cause actual future events to differ materially from the forward-looking statements in this document, including but not limited to: (i) uncertainties as to the timing of the consummation of the transaction and the ability of each party to consummate the transaction, (ii) the failure to satisfy the conditions to the consummation of the transaction, (iii) the failure to realize the anticipated benefits of the proposed transaction, including as a result of delay in completing the transaction or integrating the businesses of Cavium and Marvell, (iv) the effect of the announcement or pendency of the transaction on Cavium’s business relationships, operating results, and business generally, (v) risks that the proposed transaction disrupts current plans and operations of Cavium or Marvell and potential difficulties in Cavium employee retention as a result of the transaction, (vi) the outcome of litigation and other legal proceedings against Cavium and/or Marvell or to which Cavium and/or Marvell become subject, and

1. the ability of Marvell to successfully integrate Cavium’s operations and product lines. The foregoing review of important factors should not be construed as exhaustive. You should carefully consider the foregoing factors and the other risks and uncertainties that affect the businesses of Marvell and Cavium described in the “Risk Factors” section of their respective Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and other documents filed by either of them from time to time with the SEC. These filings identify and address other important risks and uncertainties that could cause actual events and results to differ materially from those contained in the forward-looking statements. Forward-looking statements speak only as of the date they are made. Readers are cautioned not to put undue reliance on forward-looking statements, and Marvell and Cavium assume no obligation and do not intend to update or revise these forward-looking statements, whether as a result of new information, future events, or otherwise. Neither Marvell nor Cavium gives any assurance that either Marvell or Cavium will achieve its expectations.

**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Exhibit** | |  |  | **Exhibit Description** | | | | | |  |
| **No.** | |  |  |  |
| 23.1 |  | [Consent of PricewaterhouseCoopers LLP](#page5) | | | | | | | |  |
|  |  |  |  |  |  |  |  |  |  |  |
| 99.1 |  | [Cavium, Inc. Audited Consolidated Financial Statements as of December 31, 2017 and 2016 and for each of the three years in the period ended](#page6) | | | | | | |  |  |
|  |  | [December 31, 2017](#page6) |  | | | | | | |  |
| 99.2 |  | [Cavium, Inc. Unaudited Financial Statements for the Three months Ended March 31, 2018, and accompanying notes thereto](#page43) | | | | | | | |  |
| 99.3 |  | [Cavium, Inc. Management’s Report on Internal Control Over Financial Reporting](#page61) | | | | | |  | |  |
| 99.4 |  | [Unaudited Pro Forma Condensed Combined Financial Statements](#page62) | | | |  |  | | |  |
| 99.5 |  | [Cavium, Inc. Risk Factors for the Quarter Ended March 31, 2018](#page81) | | |  | | | | |  |

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: June 13, 2018

MARVELL TECHNOLOGY GROUP LTD.

By: /s/ Mitchell L. Gaynor



Mitchell L. Gaynor

*Chief Administration and Legal Officer and Secretary*

**Exhibit 23.1**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-4 (No. 333-222235) and Form S-8 (Nos. 333-40152, 333-40154, 333-54188, 333-55974, 333-56322, 333-87322, 333-91124, 333-104925, 333-106683, 333-108334, 333-111133, 333-114434, 333-124072, 333-133281, 333-148621, 333-151816, 333-163644, 333-180412, 333-187641, 333-194865, 333-204730, 333-213059 and 333-217004) of Marvell Technology Group Ltd. of our report dated March 1, 2018 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting of Cavium, Inc., which appears in this Current Report on Form 8-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California

June 13, 2018

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  | **Exhibit 99.1** |
|  |  |  | **CAVIUM, INC.** | | | | | |  |
|  | **INDEX TO CONSOLIDATED FINANCIAL STATEMENTS** | | | | | | | |  |
| The following financial statements are filed as part of this Annual Report | | | | | | | | |  |
| [Report of Independent Registered Public Accounting Firm](#page6) | | | | | | | | | 1 |
|  |  |  |  |  |  |  |  |  |  |
| [Consolidated Balance Sheets at December 31, 2017 and 2016](#page8) | | | | | | | | | 3 |
|  |  | |  |  |  |  |  |  |  |
| [Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015](#page9) | | | | | | | | | 4 |
|  |  | | |  |  |  |  |  |  |
| [Consolidated Statements of Changes in Stockholders’ Equity for the years ended December 31, 2017, 2016 and 2015](#page10) | | | | | | | | | 5 |
| [Consolidated Statements of Comprehensive Loss for the years ended December 31, 2017, 2016 and 2015](#page11) | | | | | | | |  | 6 |
| [Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015](#page11) | | | | | |  | | | 6 |
| [Notes to Consolidated Financial Statements](#page12) |  | | | |  | | | | 7 |
| [Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2017, 2016 and 2015](#page42) | | | | | | |  | | 37 |

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM** To the Board of Directors and Stockholders of Cavium, Inc.

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Cavium, Inc. and its subsidiaries (“the Company”) as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in stockholders’ equity, comprehensive loss and cash flows for each of the three years in the period ended December 31, 2017, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2017 appearing under Item 8 (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the COSO.

*Change in Accounting Principle*

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for certain elements of its employee share-based payments in 2017.

***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

***Definition and Limitations of Internal Control over Financial Reporting***

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California

March 1, 2018

We have served as the Company’s auditor since 2001.

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**PART I. FINANCIAL INFORMATION**

**Item 1. *Financial Statements***

**CAVIUM, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(in thousands, except share and per share data)**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **As of December 31,** | | | | | | |  |
|  |  |  | **2017** |  |  |  |  | **2016** |  |  |
|  | **Assets** |  |  |  |  |  |  |  |  |  |
|  | Current assets: |  |  |  |  |  |  |  |  |  |
|  | Cash and cash equivalents | $ | 140,498 | |  | $ | | 221,439 | |  |
|  | Accounts receivable, net of allowances of $3,156 and $4,130, respectively |  | 230,143 | |  |  |  | 125,728 | |  |
|  | Inventories |  | 93,674 | | |  |  | 119,692 | |  |
|  | Prepaid expenses and other current assets |  | 22,794 | | |  |  | 22,259 | |  |
|  | Total current assets |  | 487,109 |  |  |  |  | 489,118 |  |  |
|  | Property and equipment, net |  | 192,515 | |  |  |  | 150,862 | |  |
|  | Intangible assets, net |  | 664,769 | |  |  |  | 764,885 | |  |
|  | Goodwill |  | 237,692 | |  |  |  | 241,067 | |  |
|  | Other assets |  | 7,240 | |  |  |  | 4,599 | |  |
|  | Total assets | $ | 1,589,325 |  |  |  | $ | 1,650,531 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Liabilities and Stockholders’ equity** |  |  |  |  |  |  |  |  |  |
|  | Current liabilities: |  |  |  |  |  |  |  |  |  |
|  | Accounts payable | $ | 91,318 | | | $ | | 65,456 | |  |
|  | Accrued expenses and other current liabilities |  | 38,753 | | |  |  | 64,967 | |  |
|  | Deferred revenue |  | 9,236 | |  |  |  | 8,412 | |  |
|  | Current portion of long-term debt |  | 3,270 | |  |  |  | 3,865 | |  |
|  | Capital lease and technology license obligations |  | 31,435 | | |  |  | 25,535 | |  |
|  | Total current liabilities |  | 174,012 |  |  |  |  | 168,235 |  |  |
|  | Long-term debt |  | 592,963 | |  |  |  | 675,414 | |  |
|  | Capital lease and technology license obligations, net of current portion |  | 15,370 | | |  |  | 27,878 | |  |
|  | Deferred tax liability |  | 2,686 | |  |  |  | 18,774 | |  |
|  | Other non-current liabilities |  | 25,948 | | |  |  | 18,386 | |  |
|  | Total liabilities |  | 810,979 |  |  |  |  | 908,687 |  |  |
| Commitments and contingencies (Note 13) | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Stockholders’ equity |  |  |  |  |  |  |  |  |  |
|  | Preferred stock, par value $0.001: |  |  |  |  |  |  |  |  |  |
|  | 10,000,000 shares authorized; no shares issued and outstanding |  | — | | |  |  | — | |  |
|  | Common stock, par value $0.001: |  |  |  |  |  |  |  |  |  |
|  | 200,000,000 shares authorized; 69,155,793 and 67,181,634 shares issued and outstanding, respectively |  | 69 | |  |  |  | 67 | |  |
|  | Additional paid-in capital |  | 1,183,819 | |  |  |  | 1,079,043 | |  |
|  | Accumulated deficit |  | (406,352) | | |  |  | (336,621) | |  |
|  | Accumulated other comprehensive income (loss) |  | 810 |  |  |  |  | (645) | |  |
|  | Total stockholders’ equity |  | 778,346 |  |  |  |  | 741,844 |  |  |
|  | Total liabilities and stockholders’ equity | $ | 1,589,325 |  |  |  | $ | 1,650,531 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |

The accompanying notes are an integral part of these consolidated financial statements.

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**CAVIUM, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(in thousands, except per share data)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Year Ended December 31,** | | | | | | |  |  |  |
|  |  |  | **2017** |  |  |  | **2016** |  |  | **2015** |  |  |
|  | Net revenue | $ | 984,018 |  |  | $ | 603,314 |  | $ | 412,744 |  |  |
|  | Cost of revenue |  | 484,434 |  |  |  | 318,000 |  |  | 143,767 |  |  |
|  | Gross profit |  | 499,584 | |  |  | 285,314 |  |  | 268,977 | |  |
| Operating expenses: | |  |  |  |  |  |  |  |  |  |  |  |
|  | Research and development |  | 377,941 | |  |  | 257,816 |  |  | 203,778 | |  |
|  | Sales, general and administrative |  | 178,335 |  |  |  | 161,051 |  |  | 78,926 |  |  |
|  | Total operating expenses |  | 556,276 | |  |  | 418,867 |  |  | 282,704 | |  |
|  | Loss from operations |  | (56,692) |  |  |  | (133,553 | ) |  | (13,727) |  |  |
|  | Other income (expense), net: |  |  |  |  |  |  |  |  |  |  |  |
|  | Interest expense |  | (29,147) | |  |  | (12,734) | |  | (1,241) | |  |
|  | Other, net |  | 220 | |  |  | 75 |  |  | (410) | |  |
| Total other expense, net | |  | (28,927) |  |  |  | (12,659) |  |  | (1,651) |  |  |
|  | Loss before income taxes |  | (85,619) | |  |  | (146,212) | |  | (15,378) | |  |
|  | Provision for (benefit from) income taxes |  | (16,760) | |  |  | 997 | |  | 1,682 | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net loss | $ | (68,859) | | $ | | (147,209) | | $ | (17,060) | |  |
| Earnings per share: | |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | Net loss per common share, basic | $ | (1.01) | | $ | | (2.42) | | $ | (0.31) | |  |
|  | Shares used in computing basic net loss per common share |  | 68,394 | |  |  | 60,883 | |  | 55,589 | |  |
|  | Net loss per common share, diluted | $ | (1.01) | | $ | | (2.42) | | $ | (0.31) | |  |
|  | Shares used in computing diluted net loss per common share |  | 68,394 | |  |  | 60,883 | |  | 55,589 | |  |

The accompanying notes are an integral part of these consolidated financial statements.

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**CAVIUM, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS’ EQUITY**

**(in thousands, except share data)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  | **Additional** | | |  |  |  |  | **Accumulated Other** | | |  |  |  |
|  |  | **Common Stock** | | | |  |  |  | **Paid-in** | |  | **Accumulated** | | |  | **Comprehensive** | |  |  |  |
|  |  | **Shares** | | | **Amount** | |  |  | **Capital** | |  |  | **Deficit** | |  | **Loss** | | **Total** | |  |
|  | **Balance at December 31, 2014** | 54,458,288 |  |  |  | 54 |  | $ | 488,981 |  |  | $ | (172,352) |  | $ | — |  | $ 316,683 |  |  |
|  | Common stock issued in connection with exercises of |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | stock options | 685,439 | |  |  | 1 | |  | 9,607 | |  |  |  |  |  |  |  | 9,608 | |  |
|  | Common stock issued in connection with vesting of |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | restricted stock units | 1,115,525 | |  |  | 1 | |  |  |  |  |  |  |  |  |  |  | 1 | |  |
|  | Stock-based compensation |  |  |  |  |  |  |  | 48,298 | |  |  |  |  |  |  |  | 48,298 | |  |
|  | Payments to common shareholders of Xpliant |  |  |  |  |  |  |  | (3,630) | |  |  |  |  |  |  |  | (3,630) | |  |
|  | Net loss |  |  |  |  |  |  |  |  |  |  |  | (17,060) | |  |  |  | (17,060) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance at December 31, 2015** | 56,259,252 |  |  |  | 56 |  |  | 543,256 | |  |  | (189,412) | |  | — | | 353,900 | |  |
|  | Common stock issued in connection with exercises |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | of stock options | 1,010,670 | |  |  | 1 | |  | 11,424 | |  |  |  |  |  |  |  | 11,425 | |  |
|  | Common stock issued in connection with vesting of |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | restricted stock units | 1,547,694 | |  |  | 2 | |  |  |  |  |  |  |  |  |  |  | 2 | |  |
|  | Taxes withheld on net settled vesting of restricted stock |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | units |  |  |  |  |  |  |  | (1,930) | |  |  |  |  |  |  |  | (1,930) | |  |
|  | Issuance of common stock in connection with the |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | acquisition of QLogic | 8,364,018 | |  |  | 8 | |  | 431,157 | |  |  |  |  |  |  |  | 431,165 | |  |
|  | Stock-based compensation |  |  |  |  |  |  |  | 85,703 | |  |  |  |  |  |  |  | 85,703 | |  |
|  | Fair value of the replacement equity awards attributable |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | to pre-acquisition service |  |  |  |  |  |  |  | 9,433 | |  |  |  |  |  |  |  | 9,433 | |  |
|  | Other comprehensive loss |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (645) | | (645) | |  |
|  | Net loss |  |  |  |  |  |  |  |  |  |  |  | (147,209) | |  |  |  | (147,209) | |  |
| **Balance at December 31, 2016** | | 67,181,634 |  |  |  | 67 |  |  | 1,079,043 |  |  |  | (336,621) |  |  | (645) |  | 741,844 |  |  |
|  | Common stock issued in connection with exercises of |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | stock options | 205,535 | |  |  |  |  |  | 6,472 | |  |  |  |  |  |  |  | 6,472 | |  |
|  | Common stock issued in connection with vesting of |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | restricted stock units | 1,768,624 | |  |  | 2 | |  |  |  |  |  |  |  |  |  |  | 2 | |  |
|  | Taxes withheld on net settled vesting of restricted stock |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | units |  |  |  |  |  |  |  | (5,748) | |  |  |  |  |  |  |  | (5,748) | |  |
|  | Stock-based compensation |  |  |  |  |  |  |  | 103,180 | |  |  |  |  |  |  |  | 103,180 | |  |
|  | Impact of adoption of updated guidance on stock-based |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | compensation |  |  |  |  |  |  |  | 872 | |  |  | (872) | |  |  |  | — | |  |
|  | Other comprehensive income |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 1,455 | | 1,455 | |  |
|  | Net loss |  |  |  |  |  |  |  |  |  |  |  | (68,859) | |  |  |  | (68,859) | |  |
| **Balance at December 31, 2017** | | 69,155,793 |  |  | $ | 69 |  | $ | 1,183,819 |  |  | $ | (406,352 | ) | $ | 810 |  | $ 778,346 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

The accompanying notes are an integral part of these consolidated financial statements.

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**CAVIUM, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(in thousands)**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Year Ended December 31,** | | | | | | |  |
|  |  |  | **2017** |  | **2016** | |  | **2015** |  |  |
|  | Net loss |  | $(68,859) |  |  | $(147,209) |  | $(17,060) |  |  |
|  | Foreign currency translation adjustments |  | 1,455 |  |  | (645) | | — | |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Comprehensive loss | $(67,404) | | | $(147,854) | | | $(17,060) | |  |
|  |  |  |  |  |  |  |  |  |  |  |

The accompanying notes are an integral part of these consolidated financial statements.

**CAVIUM, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Year Ended December 31,** | | | | | | |  |  |  |
|  |  |  | **2017** |  |  |  | **2016** |  |  | **2015** |  |  |
|  | **Cash flows from operating activities:** |  |  |  |  |  |  |  |  |  |  |  |
|  | Net loss | $ | (68,859) | | $ | | (147,209) | | $ | (17,060) | |  |
|  | Adjustments to reconcile net loss to net cash provided by operating activities: |  |  |  |  |  |  |  |  |  |  |  |
|  | Stock-based compensation expense |  | 102,871 | |  |  | 85,330 | |  | 48,297 | |  |
|  | Depreciation and amortization |  | 205,155 | |  |  | 99,236 | |  | 42,442 | |  |
|  | Deferred income taxes |  | (16,646) | |  |  | (2,138) | |  | 663 | |  |
|  | Amortization of deferred debt financing costs |  | 6,015 | |  |  | 1,631 |  |  | — | |  |
|  | Loss on disposal of property and equipment |  | 933 | |  |  | 5,188 |  |  | 129 | |  |
|  | Gain on disposition of certain consumer product assets |  | — | |  |  | — | |  | (400) | |  |
|  | Changes in assets and liabilities, net of assets acquired and liabilities assumed from acquisitions: |  |  |  |  |  |  |  |  |  |  |  |
|  | Accounts receivable, net |  | (104,415) | |  |  | 8,590 |  |  | (20,543) | |  |
|  | Inventories |  | 26,328 | |  |  | (9,010) | |  | 4,914 | |  |
|  | Prepaid expenses, other current and non-current assets |  | (1,153) | |  |  | (1,118) | |  | (2,110) | |  |
|  | Accounts payable |  | 14,941 | |  |  | (7,524) | |  | (220) | |  |
|  | Deferred revenue |  | 824 | |  |  | 1,492 |  |  | 31 | |  |
|  | Accrued expenses, other current and non-current liabilities |  | (20,100) | |  |  | 31,030 | |  | 1,706 | |  |
|  | Net cash provided by operating activities |  | 145,894 |  |  |  | 65,498 |  |  | 57,849 |  |  |
| **Cash flows from investing activities:** | |  |  |  |  |  |  |  |  |  |  |  |
|  | Purchases of property and equipment |  | (89,655) | |  |  | (49,660) | |  | (35,826) | |  |
|  | Purchases of intangible assets |  | (17,860) | |  |  | (51,440) | |  | (6,440) | |  |
|  | Cash payment for acquisitions, net of cash and cash equivalents acquired |  | — | |  |  | (573,830) | |  | (3,630) | |  |
|  | Proceeds received from sale of held for sale assets |  | — | |  |  | 32,420 | |  | — | |  |
|  | Proceeds received from disposition of certain consumer product assets |  | — | |  |  | — | |  | 400 | |  |
|  | Proceeds from the sale of available-for-sale securities |  | — |  |  |  | 375 |  |  | 1,000 |  |  |
|  | Net cash used in investing activities |  | (107,515) | |  |  | (642,135) | |  | (44,496) | |  |
| **Cash flows from financing activities:** | |  |  |  |  |  |  |  |  |  |  |  |
|  | Proceeds from issuance of common stock upon exercise of options |  | 6,474 | |  |  | 11,427 |  |  | 9,609 | |  |
|  | Payment of taxes withheld on net settled vesting of restricted stock units |  | (5,748) | |  |  | (1,930) | |  | — | |  |
|  | Principal payment of capital lease and technology license obligations |  | (30,985) | |  |  | (23,716) | |  | (20,034) | |  |
|  | Proceeds from issuance of long-term debt |  | — | |  |  | 750,000 |  |  | — | |  |
|  | Debt financing costs |  | — | |  |  | (20,601) | |  | — | |  |
|  | Principal payments of long-term debt |  | (89,061) | |  |  | (51,750) | |  | — | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net cash provided by (used in) financing activities |  | (119,320) | |  |  | 663,430 |  |  | (10,425) | |  |
| Net increase (decrease) in cash and cash equivalents | |  | (80,941) |  |  |  | 86,793 |  |  | 2,928 |  |  |
|  | Cash and cash equivalents, beginning of period |  | 221,439 | |  |  | 134,646 |  |  | 131,718 | |  |
| Cash and cash equivalents, end of period | | $ | 140,498 |  |  | $ | 221,439 |  | $ | 134,646 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Supplemental disclosures of cash flow information:** |  |  |  |  |  |  |  |  |  |  |  |
|  | Cash paid for interest | $ | 24,376 | | $ | | 10,105 | | $ | 1,273 | |  |
|  | Cash paid for taxes |  | 7,726 | |  |  | 2,207 |  |  | 958 | |  |
|  | **Supplemental disclosure of cash flows from investing activities:** |  |  |  |  |  |  |  |  |  |  |  |
|  | Additions to property and equipment and intangible assets included in accounts payable | $ | 16,899 | | $ | | 3,419 |  | $ | 2,335 | |  |
|  | **Supplemental disclosure of cash flows from financing activities:** |  |  |  |  |  |  |  |  |  |  |  |
|  | Issuance of common stock in connection with the QLogic acquisition | $ | — | | $ | | 431,165 |  | $ | — | |  |

The accompanying notes are an integral part of these consolidated financial statements.

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**CAVIUM, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Significant Accounting Policies**

***Organization***

Cavium, Inc., (the “Company”), was incorporated in the state of California on November 21, 2000 and was reincorporated in the state of Delaware effective February 6, 2007. The Company designs, develops and markets semiconductor processors for intelligent and secure networks.

***Acquisition of QLogic***

On August 16, 2016, the Company completed the acquisition of QLogic Corporation, which we subsequently converted to a limited liability company. Where we refer to “QLogic” in this document, we refer to QLogic Corporation for time periods prior to the conversion to a limited liability company, and to the limited liability company for time periods after the conversion. QLogic designs and supplies high-performance server and storage networking connectivity products that provide, enhance and manage computer data communication used in enterprise, managed service provider and cloud service provider datacenters. See Note 2 of Notes to Consolidated Financial Statements for further discussion regarding the Company’s acquisition of QLogic.

***Pending Acquisition by Marvell***

On November 19, 2017, the Company entered into an Agreement and Plan of Merger with Marvell Technology Group Ltd., a Bermuda exempted company (“Marvell” or “Parent”) and Kauai Acquisition Corp., a Delaware corporation and an indirect wholly owned subsidiary of Parent (“Merger Sub”) (the “Marvell Merger Agreement”). Pursuant to the Marvell Merger Agreement, Merger Sub will be merged with and into the Company (the “Merger”), with the Company continuing as an indirect wholly owned subsidiary of Parent. Subject to the terms and conditions set forth in the Marvell Merger Agreement, at the effective time of the Merger, each share of common stock of the Company (“Company Share”) issued and outstanding immediately prior to the effective time of the Merger (other than (i) Company Shares held by the Company (or held in the Company’s treasury) or held by Parent, Merger Sub or any other subsidiary of Parent, (ii) Company Shares held, directly or indirectly, by any subsidiary of the Company, or (iii) Company Shares with respect to which appraisal rights are properly exercised and not withdrawn under Delaware law) will be converted into the right to receive 2.1757 common shares, $0.002 par value per share, of Parent (each, a “Parent Share”) and $40.00 in cash, without interest (the “Merger Consideration”).

In general, as a result of the Merger, at the effective time of the Merger, (i) each stock option, then outstanding, whether vested or unvested, shall be assumed by Parent and converted into an option to purchase, on the same terms and conditions as were applicable under such company stock option, Parent Shares at a conversion ratio as set forth

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in the Marvell Merger Agreement; (ii) unvested restricted stock units will be assumed and converted into Marvell restricted stock units at a conversion ratio as set forth in the Marvell Merger Agreement; (iii) vested restricted stock units (including restricted stock units that will vest just prior to or as of the effective time of the Merger) will receive the Merger Consideration based on the number of shares of our common stock underlying the restricted stock unit; and

1. unvested performance-based restricted stock units will be assumed by Marvell and converted into Marvell restricted stock units (based on target level of performance achieved as of the last trading day prior to the closing of the Merger and the conversion ratio as set forth in the Marvell Merger Agreement).

The Marvell Merger Agreement contains representations, warranties and covenants of the parties customary for a transaction of this type. The consummation of the Merger is subject to customary closing conditions, including, among other things, approval by the Company’s shareholders, approval by Parent’s shareholders of the issuance of Parent Shares in connection with the Merger (the “Parent Share Issuance”), and the receipt of certain regulatory clearances, including the required clearances from the Committee on Foreign Investment in the United States (“CFIUS”), the Ministry of Commerce of the People’s Republic of China (“MOFCOM”), and the Office for Competition and Consumer Protection of Poland (“OCCP).

The Marvell Merger Agreement provides Parent and us with certain termination rights, and under certain circumstances, may require Parent or the Company to pay a termination fee. The Marvell Merger Agreement provides that in certain circumstances, the Company’s board of directors has the right to terminate the Marvell Merger Agreement in order to enter into a definitive agreement relating to a superior offer. In that event, the Marvell Merger Agreement requires the Company to pay a termination fee of $180.0 million. The Marvell Merger Agreement provides that, in certain circumstances, the Marvell board of directors has the right to terminate the Merger Agreement in order to enter into a definitive agreement relating to a superior offer. In that event, the Marvell Merger Agreement provides that Marvell pay the Company a termination fee of $180.0 million. In addition, the Merger Agreement provides that Marvell will be required to pay the Company a termination fee of $50.0 million if, under certain specified circumstances, MOFCOM approval has not been obtained and the Marvell Merger Agreement is terminated. The Marvell Merger Agreement also provides that Marvell will be required to pay the Company a termination fee of $180.0 million if, under certain specified circumstances, CFIUS Approval has not been obtained and the Merger Agreement is terminated. The transaction is expected to close in mid-calendar year 2018.

The Company recorded acquisition-related costs of approximately $11.2 million in the year ended December 31, 2017, primarily for outside legal and external financial advisory fees associated with the pending acquisition by Marvell. These costs were recorded in sales, general and administrative expenses in the Company’s consolidated statements of operations. Additional acquisition-related costs are expected to be incurred through the closing of the Merger.

***Basis of Consolidation***

The consolidated financial statements include the accounts of Cavium, Inc. and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. Prior to the closing of the acquisition of Xpliant, Inc. (“Xpliant”) in April 2015, as discussed in Note 2 of Notes to Consolidated Financial Statements, the Company accounted for Xpliant as a variable interest entity, or VIE. Under the accounting principles generally accepted in the United States of America, or US GAAP, a VIE is required to be consolidated by its primary beneficiary. The primary beneficiary is the party that absorbs a majority of the VIE’s anticipated losses and/or a majority of the expected returns. All intercompany transactions and balances have been eliminated in consolidation.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in its consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates.

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***Revenue Recognition***

The Company primarily derives its revenue from sales of semiconductor products to original contract manufacturers, or OEM, or through an OEM’s contract manufacturers or distributors. To a lesser extent, the Company also derive revenue from licensing software and related maintenance and support and from professional service arrangements. The Company recognizes revenue when (i) persuasive evidence of a binding arrangement exists; (ii) delivery has occurred or service has been rendered; (iii) the price is deemed fixed or determinable and free of contingencies and significant uncertainties; and (iv) collectibility is reasonably assured.

The Company records a reduction in revenue for provision for estimated sales returns in the same period the related revenues are recorded. These estimates are based on historical patterns of return, analysis of credit memo data and other known factors at the time. The Company also records reductions of revenue for pricing adjustments, such as competitive pricing programs and rebates, in the same period that the related revenue is recorded. In 2016, the Company started its rebate programs with certain customers. In addition, the Company assumed and continued the existing QLogic rebate programs following the closing of the QLogic acquisition. The Company accrues the full potential rebates at the time of sale and does not apply a breakage factor. The reversal of the accrual of unclaimed rebate will be made if the specific rebate programs contractually ends and when the Company believes that the unclaimed rebates are no longer subject to payment. Rebates and accrued rebates balances included in the Company’s consolidated financial statements for the periods presented were not material.

Revenue is recognized upon shipment to distributors with limited rights of returns and price protection if the Company concludes that it can reasonably estimate the credit for returns and price adjustments issuable. The Company records an estimated allowance, at the time of shipment, based on the Company’s historical patterns of returns and pricing credit of sales recognized upon shipment. Credits issued to distributors or other customers have historically not been material. The inventory at these distributors at the end of the period may fluctuate from time to time mainly due to the OEM production ramps and/or new customer demands.

Software arrangements typically include time-based licenses for 12 months with related support. The Company does not sell support separately, therefore, revenue from software arrangements is recognized ratably over the support period. The software arrangement may also include professional services, and these services may be purchased separately. Professional services engagements are billed on either a fixed-fee or time-and-materials basis. For fixed-fee arrangements, professional services revenue is recognized under the proportional performance method, with the associated costs included in cost of revenue. The Company estimates the proportional performance of the arrangements based on an analysis of progress toward completion. The Company periodically evaluates the actual status of each project to ensure that the estimates to complete each contract remain accurate, and a loss is recognized when the total estimated project cost exceeds project revenue. If the amount billed exceeds the amount of revenue recognized, the excess amount is recorded as deferred revenue. Revenue recognized in any period is dependent on progress toward completion of projects in progress. To the extent we are unable to estimate the proportional performance, revenue is recognized on a completed performance basis. Revenue for time-and-materials engagements is recognized as the effort is incurred.

For sales that include multiple deliverables, the Company allocates revenue based on the relative selling price of the individual components. When more than one element, such as hardware and services, are contained in a single arrangement, the Company allocates revenue between the elements based on each element’s relative selling price, provided that each element meets the criteria for treatment as a separate unit of accounting.

***Accounting for Stock-Based Compensation***

The Company applies the fair value recognition provisions of stock-based compensation. The Company recognizes the fair value of the awards on a straight-line basis over its vesting periods. The Company estimates the grant date fair value of stock options using the Black-Scholes option valuation model. The Black-Scholes option valuation model used to determine the fair value of stock options requires various subjective assumptions, including expected volatility, expected term and the risk-free interest rates. The stock price volatility assumption is estimated using the Company’s historical stock price volatility. For options granted beginning in 2016, the Company used historical exercise patterns to estimate the expected life. Prior to 2016, the Company used the simplified method as permitted by the guidance on stock-based compensation to estimate the expected life since the Company had no sufficient history of weighted average period from the date of grant to exercise, cancellation, or expiration. The risk free interest rate is based on the implied yield currently available on United States. Treasury securities with an equivalent remaining term.

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For all restricted stock unit, or RSU, grants other than RSU grants with a market condition, the fair value of the RSU grant is based on the market price of the Company’s common stock on the date of grant. For performance-based RSU grants, the Company evaluates the probability of achieving the milestones for each of the outstanding performance-based RSU grants at each reporting period and updates the related stock-based compensation expense. The fair value of market-based RSUs is determined using the Monte Carlo simulation method which takes into account multiple input variables that determine the probability of satisfying the market conditions stipulated in the award. This method requires the input of assumptions, including the expected volatility of the Company’s common stock, and a risk-free interest rate, similar to assumptions used in determining the fair value of the stock option grants discussed above.

The grant date fair value of the stock options and RSUs are recorded based upon the vesting method over the service period. Following the adoption of the updated guidance on stock-based compensation effective January 1, 2017, the Company elected to account for forfeitures when they occur, on a modified retrospective basis. The adoption of this updated guidance did not have a material impact on the Company’s consolidated financial statements.

***Income Taxes***

The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets, including those related to tax loss carryforwards and credits, and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded to reduce deferred tax assets when management cannot conclude that it is more-likely-than-not that the net deferred tax asset will be recovered. The valuation allowance is determined by assessing both positive and negative evidence to determine whether it is more-likely-than-not that deferred tax assets are recoverable; such assessment is required on a jurisdiction-by-jurisdiction basis.

The Company recognizes uncertain tax positions when it meets a more-likely-than-not threshold. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits as income tax expense.

***Business Combinations***

The Company accounts for business combinations using the purchase method of accounting. In accordance with the guidance provided under business combinations, the Company allocates the purchase price of business combinations to the tangible assets, liabilities and intangible assets acquired, including in-process research and development, or IPR&D, based on their estimated fair values. The excess purchase price over those fair values is recorded as goodwill. The Company’s valuation assumption of acquired assets and assumed liabilities requires significant estimates, especially with respect to intangible assets. The Company determines the recognition of intangible assets based on the following criteria: (i) the intangible asset arises from contractual or other rights; or (ii) the intangible is separable or divisible from the acquired entity and capable of being sold, transferred, licensed, returned or exchanged. The Company estimates the fair value based upon assumptions the Company believes to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed. Acquisition-related costs, including advisory, legal, accounting, valuation and other costs, are expensed in the periods in which the costs are incurred. The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date.

***Goodwill and indefinite-lived intangible assets***

Goodwill is measured as the excess of the cost of an acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets and liabilities assumed. The Company evaluates goodwill for impairment at its single reporting unit level at least on an annual basis in the fourth quarter of the calendar year or whenever events and changes in circumstances suggest that the carrying amount may not be recoverable from its estimated future cash flow. The Company performs a qualitative assessment to determine if any events have occurred or circumstances exist that would indicate that it is more-likely-than-not that a goodwill impairment exists. If any indicators exist based on the qualitative analysis that it is more-likely-than-not that a goodwill impairment exists, the quantitative test is required. Otherwise, no further testing is required.

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IPR&D acquired in an asset acquisition is capitalized only if it has an alternative future use. IPR&D recorded as an asset acquired through business combinations is not amortized but instead is tested annually for impairment, or more frequently when events or changes in circumstances indicate that the asset might be impaired. The Company initially assesses qualitative factors to determine whether it is more likely than not that the fair value of IPR&D is less than its carrying amount, and if so, the Company conducts a quantitative impairment test. The quantitative impairment test consists of a comparison of the fair value of IPR&D to its carrying amount. If the carrying value exceeds its fair value, an impairment loss is recognized in an amount equal to the

difference. When an IPR&D project is complete, the related intangible asset becomes subject to amortization and impairment analysis as a long-lived asset.

***Long-lived assets***

The Company reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets (or asset group) may not be fully recoverable. Whenever events or changes in circumstances suggest that the carrying amount of long-lived assets may not be recoverable, the Company estimates the future cash flows expected to be generated by the assets (or asset group) from its use or eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of those assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets. Significant management judgment is required in the grouping of long-lived assets and forecasts of future operating results that are used in the discounted cash flow method of valuation.

***Inventories***

Inventories consist of work-in-process and finished goods. Inventories not related to an acquisition are stated at the lower of cost (determined using the first-in, first-out method), or market value (estimated net realizable value). Inventories from acquisitions are stated at fair value at the date of acquisition. The Company writes down excess and obsolete inventory based on its age and forecasted demand, generally over a 12 month period, which includes estimates taking into consideration the Company’s outlook on uncertain events such as market and economic conditions, technology changes, new product introductions and changes in strategic direction. Actual demand may differ from forecasted demand and such differences may have a material effect on recorded inventory values. Inventory write-downs are not reversed until the related inventories have been sold or scrapped.

Inventories acquired through business combinations are recorded at their acquisition date fair value, which is the estimated selling price less the costs of disposal and a normal profit allowance.

***Property and Equipment***

Property and equipment are stated at cost and depreciated using the straight-line method generally over the following estimated useful lives:

|  |  |  |
| --- | --- | --- |
|  |  | **Estimated** |
|  | **Useful Lives** | |
| Software, design tools, computer and other equipment |  | 1 to 5 |
|  |  | years |
| Test equipment and mask costs |  | 1 to 5 |
|  |  | years |
| Furniture and office equipment |  | 1 to 5 |
|  |  | years |

Leasehold improvements are amortized over the shorter of estimated useful lives or unexpired lease term. Additions and improvements that increase the value or extend the life of an asset are capitalized. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income. Ordinary repairs and maintenance costs are expensed as incurred.

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The Company capitalizes the cost of fabrication masks that are reasonably expected to be used during production manufacturing. Such amounts are included within property and equipment and are depreciated over a period of 12 to 24 months and recorded as a component of cost of revenue. If the Company does not reasonably expect to use the fabrication mask during production manufacturing, the related mask costs are expensed to research and development in the period in which the costs are incurred.

The Company leases certain design tools under financing arrangements which are included in property and equipment. The Company also capitalizes acquired internally used software in property and equipment. Subsequent additions, modifications or upgrades to internally used software are capitalized to the extent it provides additional usage or functionality.

***Fair Value Measurements***

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs that may be used to measure fair value. The first two levels of inputs are considered observable and the last unobservable. A description of the three levels of inputs is as follows:

* Level 1 – Quoted prices in active markets for identical assets or liabilities.
* Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
* Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with an original or remaining maturity of 90 days or less at the date of purchase to be cash equivalents.

Cash equivalents consist of an investment in a money market fund.

***Allowance for Doubtful Accounts***

The Company reviews its allowance for doubtful accounts by assessing individual accounts receivable over a specific age and amount. The Company’s allowance for doubtful accounts were not material for the periods presented.

***Concentration of Risk***

The Company’s products are currently manufactured, assembled and tested by third-party contractors in Asia. There are no long-term agreements with any of these contractors. A significant disruption in the operations of one or more of these contractors would impact the production of the Company’s products for a substantial period of time, which could have a material adverse effect on the Company’s business, financial condition and results of operations.

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents and accounts receivable. The Company deposits cash with credit worthy financial institutions. The Company has not experienced any losses on its deposits of cash. Management believes that the financial institutions the Company utilizes are reputable and, accordingly, minimal credit risk exists. The Company’s cash equivalents are invested in a money market fund. The Company follows an established investment policy and set of guidelines to monitor, manage and limit the Company’s exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits the Company’s exposure to any one issuer, as well as the maximum exposure to various asset classes.

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A majority of the Company’s accounts receivable are derived from customers headquartered in the United States. The Company performs ongoing credit evaluations of its customers’ financial condition and, generally, requires no collateral from its customers. The Company provides an allowance for doubtful accounts receivable based upon the expected collectability of accounts receivable.

Summarized below are individual customers whose accounts receivable balances were 10% or higher of the consolidated gross receivable:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **As of December 31,** | | | |
|  | **2017** |  | **2016** |  |
| Percentage of gross accounts receivable |  |  |  |  |
| Customer A | 15% | | 15% | |
| Customer B | 11% | | \* |  |
| Customer C | \* |  | 12% | |
| Customer D | \* |  | 11% | |
| Customer E | \* |  | 11% | |

* *Represents less than 10% of the gross accounts receivable for the respective year end.*

Summarized below are individual OEM customers whose revenue balances were 10% or higher of the consolidated net revenue:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Year Ended December 31,** | | | |  |  |
|  | **2017** |  | **2016** |  |  | **2015** |  |
| Percentage of revenue by customer |  |  |  |  |  |  |  |
| Customer C | 12% | | \* | |  | \* | |
| Customer D | 13% | | \* | |  | \* | |
| Customer F | 11% | | 12% | |  | 13% | |
| Customer G | \* | | 13% | |  | 18% | |
| Customer H | \* | | \* | |  | 12% | |

* *Represents less than 10% of the net revenue for the respective year end.*

***Deferred revenue***

The Company records deferred revenue for customer billings and advance payments received from customers before the performance obligations have been completed and/or services have been performed for products and/or service related agreements.

***Warranty Accrual***

The Company’s products are generally subject to a one-year warranty period though certain products carry a warranty for up to three years. The Company records a liability for product warranty obligations in the period the related revenue is recorded based on historical warranty experience. Warranty expenses and warranty accrual included in the Company’s consolidated financial statements were not material for the periods presented.

***Deferred Research and Development Cost***

Occasionally, the Company receives funding from third-party companies for certain collaboration research and development. The Company records the funding received as deferred research and development costs within accrued expense and other liabilities. The liability for deferred research and development cost will be reduced over time to offset the research and development expenses incurred by the Company related to such funding.

***Research and Development***

Research and development costs are expensed as incurred and primarily include personnel costs, prototype expenses, which include the cost of fabrication mask costs not reasonably expected to be used in production manufacturing, and allocated facilities costs as well as depreciation of equipment used in research and development.

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***Advertising***

The Company expenses advertising costs as incurred. Advertising expenses included in the Company’s consolidated statements of operations were not material for the periods presented.

***Operating Leases***

The Company recognizes rent expense on a straight-line basis over the term of the lease. The difference between rent expense and rent paid is recorded as accrued rent in accrued expenses and other current and non-current liabilities on the consolidated balance sheets. In instances where the Company leases an existing structure and is entitled for reimbursement from a landlord for the tenant improvements, the Company classifies the amount as an incentive and includes the amount as deferred rent credits (either prepaid rent or accrued rent) on the consolidated balance sheets. The deferred rent credit is amortized as rent expense on a straight-line basis over the base term of the lease. Landlord reimbursements from these transactions are included in cash flows from operating activities as changes in assets and liabilities.

***Other Comprehensive Income (Loss)***

Comprehensive income (loss) includes all changes in equity other than transactions with stockholders. The Company’s accumulated other comprehensive income (loss) consists of foreign currency translation adjustments.

***Foreign Currency Remeasurement***

Prior to the completion of operational and tax restructuring during the third quarter of 2017, certain of the Company’s foreign subsidiaries from the QLogic acquisition used functional currency other than United States dollars. Assets and liabilities of these subsidiaries were translated to United States dollars at exchange rates in effect at the balance sheet date, and income and expenses were translated at average exchange rates during the period. The resulting translation adjustments were recorded as a component of accumulated other comprehensive income (loss).

Following the completion of operational and tax restructuring of certain QLogic foreign subsidiaries as discussed above, the Company uses the United States dollar as functional currency for most of its subsidiaries. Assets and liabilities denominated in non-United States dollars are remeasured into United States dollars at end-of-period exchange rates for monetary assets and liabilities. Historical exchange rates are used for non-monetary assets and liabilities. Income and expense amounts are remeasured at average exchange rates in effect during each period, except those income and expense amounts related to the non-monetary assets and liabilities which are measured at historical exchange rates. The aggregate foreign exchange gains and losses, which are included in other, net in the consolidated statements of operations were not material for the periods presented.

***Recently Adopted Accounting Standard***

Effective January 1, 2017, the Company adopted the updated guidance on stock-based compensation issued by the Financial Accounting Standards Board, or FASB, in March 2016. Under the new guidance, all excess tax benefits and tax deficiencies will be recognized in the income statement as they occur. This replaced the previous guidance, which requires tax benefits that exceed compensation cost (windfalls) to be recognized in equity. It also eliminates the need to maintain a “windfall pool,” and removes the requirement to delay recognizing a windfall until it reduces current taxes payable. Upon adoption of this new guidance, in the first quarter of 2017, the Company recognized deferred tax assets of $101.7 million for the excess tax benefits that arose directly from tax deductions related to equity compensation greater than the amounts recognized for financial reporting and also recognized an increase of an equal amount in the valuation allowance against those deferred tax assets. Upon adoption, the Company elected to account for forfeitures when they occur, on a modified retrospective basis, which did not have a material impact on the Company’s consolidated financial statements. The new guidance also changed the cash flow presentation of excess tax benefits, classifying them as operating inflows, consistent with other cash flows related to income taxes. Further, following the adoption of this updated guidance, there will be additional dilutive effects in earnings per share calculations because there will no longer be excess tax benefits recognized in additional paid in capital.

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***Update to Recently Issued Accounting Standards Not Yet Effective***

The FASB issued accounting standard updates that create a single source of revenue guidance under US GAAP for all companies, in all industries, effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company will adopt this standard effective on January 1, 2018, with an immaterial estimated cumulative effect adjustment to its opening accumulated deficit, under the modified retrospective approach. The Company’s assessment process consisted of reviewing its current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to its revenue contracts and identifying appropriate changes to its business processes, systems and controls to support revenue recognition and disclosure requirements under the new standard. The Company’s evaluation of its revenue sources and their treatment under the new standard is nearing completion. The Company has concluded the unit of accounting will be consistent with the current revenue guidance. The Company believes that the new standard and related new revenue recognition policies will not result in a material change to its consolidated financial statements, including no change to the timing of recognition of revenue for the sale of its semiconductor products, which represent the substantial majority of the Company’s consolidated revenue.

In May 2017, the FASB issued an update to the guidance on stock-based compensation which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. Under this updated standard, an entity will not apply modification accounting to a share-based payment award if the award’s fair value, vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, and will be applied prospectively to awards modified on or after the adoption date. The Company will adopt this standard effective on January 1, 2018 and does not expect it to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued an update to the guidance to simplify the measurement of goodwill by eliminating the Step 2 impairment test. The update is effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, though early adoption is permitted. The Company is currently assessing the impact of this new guidance but does not expect it to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued an update to the guidance on statement of cash flows—restricted cash presentation. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period, but any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The new standard must be adopted retrospectively. The Company will adopt this standard effective on January 1, 2018 and does not expect it to have a material impact on its consolidated financial statements. The Company does not have restricted cash in the periods presented.

In October 2016, the FASB issued an update to the guidance on income taxes. This new guidance requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. This new guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company will adopt this standard effective on January 1, 2018 and does not expect it to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued new guidance on cash flow classification of certain cash receipts and cash payments. This new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods during the annual period and require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. The Company will adopt this standard effective on January 1, 2018 and does not expect it to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued updated guidance on leases which requires a lessee to recognize the assets and lease liabilities on the balance sheet for certain leases classified as operating leases under previous GAAP. In September 2017, the FASB provided additional clarification and implementation guidance on leases. This updated guidance is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. Although the Company is currently evaluating the impact this new guidance will have on its consolidated financial statements and related disclosures, the Company expects that most of its operating lease commitments will be subject to the new standard and will be recognized as operating lease liabilities and right-of-use assets upon adoption.

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In January 2016, the FASB issued updated guidance on Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this updated guidance are effective for annual and interim periods beginning after December 15, 2017. The Company will adopt this standard effective on January 1, 2018 and does not expect it to have a material impact on its consolidated financial statements.

**2. Business Combinations**

***QLogic Corporation***

On August 16, 2016, pursuant to the terms of an Agreement and Plan of Merger dated June 15, 2016, by and among the Company, Quasar Acquisition Corp. (a wholly owned subsidiary of the Company) and QLogic (the “QLogic Merger Agreement”), the Company acquired all outstanding shares of common stock of QLogic (the “QLogic shares”) pursuant to an exchange offer for $11.00 per share in cash and 0.098 of a share of the Company’s common stock for each share of QLogic stock (“Transaction Consideration”) followed by a merger. The acquisition was funded with a combination of cash and proceeds from debt financing. See Note 11 of Notes to Consolidated Financial Statements for discussion of the debt financing.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| The following table summarizes the total acquisition consideration (in thousands, except shares and per share data): | |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Cash consideration to QLogic common stockholders | $ | | 936,961 |  |  |
|  | Common stock (8,364,018 shares of the Company’s common stock at $51.55 per share) |  |  | 431,165 |  |  |
|  | Cash consideration for vested “in the money” stock options and fractional shares |  |  | 1,934 |  |  |
|  | Fair value of replacement equity awards attributable to pre-acquisition service |  |  | 9,433 |  |  |
|  | Total acquisition consideration | $ | | 1,379,493 |  |  |
|  |  |  |  |  |  |  |

Pursuant to the QLogic Merger Agreement, the Company assumed the unvested equity awards originally granted by QLogic and converted them into the Company’s equivalent awards. The portion of the fair value of partially vested awards associated with prior service of QLogic employees represented a component of the total consideration, as presented above. The Company also made cash payments for vested and in the money stock options and for the fractional shares that resulted from conversion as specified in the QLogic Merger Agreement.

The Company allocated the acquisition consideration to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The fair value of the acquired tangible and identifiable intangible assets were determined based on inputs that are unobservable and significant to the overall fair value measurement. It is also based on estimates and assumptions made by management at the time of the acquisition. As such, this was classified as Level 3 fair value hierarchy measurements and disclosures.

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The Company allocated the acquisition consideration to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The allocation was as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Amounts** | |  |  |  |  |  | **Amounts** | |  |
|  |  |  | **Previously** | |  | **Measurement** | | |  |  |
|  |  | **Recognized as of** | | |  | **Recognized as of** | | |  |
|  |  | **Acquisition Date** | | |  |  | **Period** | | **Acquisition Date** | | |  |
|  |  |  | **(Provisional)** | |  | **Adjustments** | | | **(Final Allocation)** | | |  |
|  |  |  |  |  | **(amounts in thousands)** | | | |  |  |  |  |
| Cash and cash equivalents | $ | | 365,065 | | $ | | — | | $ | 365,065 | |  |
| Marketable securities |  |  | 375 | |  |  | — | |  | 375 | |  |
| Accounts receivable |  |  | 65,576 | |  |  | — | |  | 65,576 | |  |
| Inventories |  |  | 63,300 | |  |  | — | |  | 63,300 | |  |
| Prepaid expense and other current assets |  |  | 8,274 | |  |  | 3,121 | |  | 11,395 | |  |
| Property and equipment |  |  | 81,890 | |  |  | — | |  | 81,890 | |  |
| Intangible assets |  |  | 721,700 | |  |  | — | |  | 721,700 | |  |
| Other assets |  |  | 1,559 | |  |  | — | |  | 1,559 | |  |
| Goodwill |  |  | 169,589 | |  |  | (3,375) | |  | 166,214 | |  |
| Accounts payable |  |  | (41,776) | |  |  | — | |  | (41,776) | |  |
| Accrued expense and other current liabilities |  |  | (21,884) | |  |  | — | |  | (21,884) | |  |
| Deferred revenue |  |  | (603) | |  |  | — | |  | (603) | |  |
| Deferred tax liability |  |  | (17,237) | |  |  | — | |  | (17,237) | |  |
| Other non-current liabilities |  |  | (16,335) | |  |  | 254 | |  | (16,081) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total acquisition consideration | $ | | 1,379,493 | | $ | | — | | $ | 1,379,493 | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

The provisional amounts presented in the table above pertained to the preliminary purchase price allocation reported in the Company’s December 31, 2016 Annual Report on Form 10-K. The measurement period adjustments recorded in the third quarter of 2017 were primarily related to the completion of the final QLogic income tax returns. The Company does not believe that the measurement period adjustments had a material impact on its consolidated statements of operations, balance sheets or cash flows in any periods previously reported.

The valuation of identifiable intangible assets and their estimated useful lives are as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Estimated** | **Weighted** | |  |
|  |  | **Average** | |  |
|  |  | **Asset** | **Useful Life** | |  |
|  |  | **Fair Value** | **(Years)** | |  |
|  |  | **(in thousands, except for** | |  |  |
|  |  | **useful life)** | | |  |
| Existing and core technology | $578,400 | | 6 |  |  |
| In-process research and development (IPRD) | 78,900 | | n/a | |  |
| Customer relationships | 51,100 | | 10 |  |  |
| Tradename and trademark | 13,300 | | 5 |  |  |
|  |  | $721,700 |  |  |  |
|  |  |  |  |  |  |

The IPR&D consists of two projects relating to the development of process technologies to manufacture next generation Fibre Channel and Ethernet products.

The IPRD are accounted for as an indefinite-lived intangible asset until the underlying projects are completed or abandoned. The IPRD will not be amortized

until the completion of the related products which is determined by when the underlying projects reached technological feasibility. Upon completion, the

IPRD will be amortized over its estimated useful life; useful lives for IPRD are expected to range between 5 to 6 years. During the second quarter of 2017, the

underlying project related to Ethernet had achieved production status and concurrently was introduced to the market. As such, the Company reclassified

$18.6 million of the IPRD associated with the Ethernet project to existing and core technology and it is being amortized over the estimated useful life of the

asset. The Fibre Channel project is expected to be completed in fiscal year 2019.

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The fair value of existing and core technology and IPR&D was determined by performing a discounted cash flow analysis using the multi period excess earnings approach. This method includes discounting the projected cash flows associated with each technology over its expected life. Projected cash flows attributable to the existing and core technology and IPR&D were discounted to their present value at a rate commensurate with the perceived risk. The valuation of customer relationships was based on the distributor method, taking into account the profit margin a market participant distributor would obtain in selling QLogic products. The useful lives of customer relationships are estimated based upon customer turnover data and management estimates. Other identifiable intangible assets consisted of tradename and trademark, valued using a relief from royalty method. The useful lives of tradename and trademark are expected to correlate to the life of the technology or customer relationships.

The assumptions used in forecasting cash flows for each of the identified intangible assets included consideration of the following:

* Historical performance including sales and profitability.
* Business prospects and industry expectations
* Estimated economic life of asset
* Development of new technologies
* Acquisition of new customers and attrition of existing customers
* Obsolescence of technology over time

Depending on the structure of a particular acquisition, goodwill and identifiable intangible assets may not be deductible for tax purposes. Goodwill recorded in the QLogic acquisition is not expected to be deductible for tax purposes. The factors that contributed to the recognized goodwill with the acquisition of QLogic include the Company’s belief that the acquisition will create a more diverse semiconductor company with expansive offerings which will enable the Company to expand its product offerings and expected synergies from the combined operations of the Company and QLogic.

The Company incurred $16.6 million in acquisition related costs which were recorded in selling, general and administrative expense in the consolidated statements of operations in the year ended December 31, 2016.

*Unaudited Supplemental Pro Forma Information*

The unaudited supplemental pro forma financial information presented below is for illustrative purposes only and is not necessarily indicative of the financial operations or results of operations that would have been realized if the acquisition had been completed on the date indicated, does not reflect synergies that might have been achieved, nor is it indicative of future operating results or financial position. The pro forma adjustments are based upon currently available information and certain assumptions the Company believe are reasonable under the circumstances.

The following unaudited supplemental pro forma financial information summarizes the results of operations for the periods presented, as if the acquisition was completed on January 1, 2015. The unaudited supplemental pro forma information reports actual operating results, adjusted to include the pro forma effect of certain fair value adjustments for acquired items, such as the amortization of identifiable intangible assets, depreciation of property and equipment and inventories. It also includes pro forma adjustments for stock-based compensation expense related to replacement equity awards, interest expense on debt and the related tax effects of the acquisition. In accordance with the pro forma acquisition date, the Company recorded in the year ended December 31, 2015 supplemental pro forma financial information the cost of goods sold from the fair value mark-up in acquired inventory and $40.9 million for the acquisition-related transaction costs incurred by the Company and QLogic. The corresponding adjustments to the supplemental pro forma financial information in the year ended December 31, 2016 were made for the aforementioned pro forma adjustments.

QLogic constituted approximately 26% of the consolidated net revenue for the year ended December 31, 2016. Post-acquisition income (loss) on a standalone basis is impracticable to determine as, on the acquisition date, the Company implemented a plan developed prior to the completion of the acquisition and began to immediately integrate QLogic into the Company’s existing operations, engineering groups, sales distribution networks and management structure.

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The supplemental pro forma financial information for the periods presented is as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Year Ended December 31,** | | | |
|  |  |  | **2016** |  | **2015** |  |
|  |  |  | **(in thousands, except per share** | | |  |
|  |  |  |  | **data)** |  |  |
| Pro forma net revenue | $ | | 881,498 | $ | 885,276 |  |
| Pro forma net loss |  |  | (131,849) |  | (167,626) | |
| Pro forma net loss per share, basic and diluted | $ | | (1.99) | $ | (2.62) | |

***Xpliant, Inc.***

Pursuant to the Agreement and Plan of Merger and Reorganization (the “Xpliant Merger Agreement”) between the Company and Xpliant, Inc., a final closing occurred on April 29, 2015 as discussed in detail below. Between May 2012 and March 2015, the Company entered into several note purchase agreements and promissory notes with Xpliant to provide cash advances. Xpliant was a Delaware incorporated and privately held company, engaged in the design and development of next generation software defined network switch chips. Prior to the closing of the merger pursuant to the Xpliant Merger Agreement, the Company concluded that Xpliant was a VIE as the Company was Xpliant’s primary beneficiary due to the Company’s involvement with Xpliant and the Company’s purchase option to acquire Xpliant. As such, the Company has included the accounts of Xpliant in the consolidated financial statements. The Company had made total cash advances of $85.8 million, consisting of $10.0 million under nine convertible notes which, as amended, matured on August 31, 2014 and $75.8 million under several promissory notes which matured between April 2015 and March 2016. All promissory notes were cancelled as of July 31, 2015.

On July 30, 2014, the Company entered into the Xpliant Merger Agreement, which was amended on October 8, 2014 and March 31, 2015 with Xpliant. Under the terms of the Xpliant Merger Agreement, as amended, the final closing occurred on April 29, 2015 and the Company paid approximately

$3.6 million in total cash consideration in exchange for all outstanding securities held by Xpliant’s stockholders. Based on the substance of the transaction, the Company recorded the payments of cash consideration to Xpliant stockholders as a decrease to the Company’s additional paid-in capital within stockholders’ equity.

**3. Net Loss Per Common Share**

Basic net income (loss) per share is computed using the weighted-average common shares outstanding. Diluted net income per share is computed using the weighted-average common shares outstanding and any dilutive potential common shares. Diluted net loss per common share is computed using the weighted-average common shares outstanding and excludes all dilutive potential common shares when the Company is in a net loss position their inclusion would be anti-dilutive. The Company’s dilutive securities primarily include stock options and restricted stock units.

The following outstanding options and restricted stock units were excluded from the computation of diluted net loss per common share for the periods presented because including them would have had an anti-dilutive effect:

**Year Ended December 31,**



**2017** **2016** **2015**



**(in thousands)**

|  |  |  |  |
| --- | --- | --- | --- |
| Options to purchase common stock | 1,130 | 1,194 | 2,028 |
| Restricted stock units | 3,623 | 4,119 | 2,194 |

**4. Fair Value Measurements**

At December 31, 2017 and 2016, the Company’s cash equivalents comprised of an investment in a money market fund. In accordance with the guidance for fair value measurements and disclosures, the Company determined the fair value hierarchy of its money market fund as Level 1, which approximated $39.7 million and $61.4 million as of December 31, 2017 and 2016, respectively. The carrying amount of the Company’s accounts receivable, accounts payable and accrued expenses and other current liabilities approximate fair value due to their short term maturities.

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There are no other financial assets and liabilities, except those disclosed in Notes 2, 5, 7, 11 and 13 of Notes to Consolidated Financial Statements that require Level 2 or Level 3 fair value hierarchy measurements and disclosures.

**5. Balance Sheet Components**

***Inventories***

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **As of December 31,** | | | | | |  |
|  |  |  |  | **2017** | | **2016** | |  |  |  |
|  |  |  |  | **(in thousands)** | | | | |  |  |
|  | Work-in-process | $54,835 | | | | $ 61,363 | | |  |  |
|  | Finished goods |  | | 38,839 | |  | 58,329 | |  |  |
|  |  | $93,674 | | | | $119,692 | | |  |  |
| ***Property and equipment, net*** | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  | **As of December 31,** | | | | | |  |
|  |  |  | **2017** | |  | **2016** | |  |  |  |
|  |  |  |  | **(in thousands)** | | | |  | |  |
|  | Test equipment and mask costs | $ 174,710 | | |  | $138,633 | |  |  |  |
|  | Software, design tools, computer and other equipment | 114,322 | | |  | 87,648 | |  |  |  |
|  | Furniture, office equipment and leasehold improvements | 50,754 | | |  | 12,927 | |  |  |  |
|  | Construction in progress |  | 20,368 | |  |  | 4,767 |  |  |  |
|  |  | 360,154 | | |  | 243,975 | |  |  |  |
|  | Less: accumulated depreciation and amortization |  | (167,639) | | | (93,113) | | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | $ 192,515 | |  | $150,862 | |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |

Depreciation and amortization expense was $76.7 million, $46.7 million and $32.9 million for years ended December 31, 2017, 2016 and 2015, respectively. Certain fully depreciated property and equipment have been eliminated from both the gross and accumulated amount as they were disposed of as the Company no longer utilized them.

The Company leases certain design tools under financing arrangements which are included in property and equipment, which total cost, net of accumulated amortization amounted to $43.7 million and $46.3 million at December 31, 2017 and 2016, respectively. Amortization expense related to assets recorded under capital lease and certain financing arrangements was $18.4 million, $16.8 million and $14.7 million for the years ended December 31, 2017, 2016 and 2015, respectively.

***Assets written-down***

The Company decided to rationalize certain product lines in March 2017. As a result, the Company wrote-down certain assets in 2017 totaling $22.4 million which was recorded in the condensed consolidated statements of operations within cost of revenue of $21.4 million, research and development expense of $0.4 million and sales, general and administrative expense of $0.6 million. The assets written-down included inventories of $17.3 million, property and equipment of $4.5 million, and intangibles and other assets of $0.6 million.

***Sale of held for sale assets***

In September 2016, the Company began to actively market the real property located in Aliso Viejo, California that was acquired in the QLogic acquisition. The Company classified this real property as held for sale assets on its consolidated balance sheet as of September 30, 2016. On December 16, 2016, the Company completed the sale of this real property for a total net cash consideration of $32.4 million. Concurrently, the Company leased back the

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property on a month-to-month basis until November 2017. The first six months of the leaseback were rent free; thereafter, the rents were lower than the market rates. For accounting purposes, these rents were deemed to have been netted against the sale proceeds and represented a prepaid rent. Accordingly, the Company recorded $1.8 million off-market rental rate adjustment as prepaid rent on the consolidated balance sheets and such amount was recognized as rent expense over the lease-back term. The Company adjusted the fair value of the acquired real property from QLogic based upon the business combination guidance on measurement period, and accordingly did not recognize a gain or loss upon the sale of the related asset.

***Other Asset Acquisition***

In November 2016, the Company entered into an asset purchase agreement with a third-party company. Pursuant to the asset purchase agreement, the Company acquired property and equipment of $9.2 million and IPR&D of $2.0 million. The IPR&D was recorded at its relative fair using the multi-period excess earnings valuation approach and was written off immediately as the asset had no alternative future use. The fair value of the IPR&D was determined based on inputs that are unobservable which was significant to the overall fair value measurement and was based on estimates and assumptions made by management at the time of the acquisition. This fair value measurement was classified as Level 3 under fair value hierarchy measurements and disclosures.

***Accrued expenses and other current liabilities***

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **As of December 31,** | | | | | | |  |
|  |  |  | **2017** | |  | **2016** | | |  |  |
|  |  |  |  | **(in thousands)** | | | | |  |  |
|  | Accrued compensation and related benefits | $18,576 | | |  | $18,197 | | |  |  |
|  | Deferred research and development costs | 1,180 | | |  | 25,370 | | |  |  |
|  | Other | 18,997 | | |  | 21,400 | | |  |  |
|  |  |  | $38,753 | |  |  | $64,967 | |  |  |
| ***Deferred revenue*** | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  | **As of December 31,** | | | | | |  |
|  |  |  | | **2017** |  | **2016** | | |  |  |
|  |  |  |  | **(in thousands)** | | | | |  |  |
|  | Services/support and maintenance | $8,091 | | | | $7,773 | | |  |  |
|  | Software license/subscription and other |  | | 1,145 | |  | | 639 |  |  |
|  |  | $9,236 | | | | $8,412 | | |  |  |
| ***Other non-current liabilities*** | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  | **As of December 31,** | | | | | | |  |
|  |  |  | **2017** | |  | **2016** | | |  |  |
|  |  |  |  | **(in thousands)** | | | | |  |  |
|  | Income tax payable | $ 6,605 | | |  | $12,071 | | |  |  |
|  | Accrued rent | 12,813 | | |  | 2,163 | | |  |  |
|  | Other | 6,530 | | |  | 4,152 | | |  |  |
|  |  |  | $25,948 | |  |  | $18,386 | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |

**6. Goodwill and Intangible Assets, Net**

***Goodwill***

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. The carrying value of goodwill as of December 31, 2017 and 2016 was $237.7 million and $241.1 million, respectively. The change in the carrying value of goodwill from December 31, 2016 to December 31, 2017 was due to the measurement period adjustment related to the acquisition of QLogic. See Note 2 of Notes to Consolidated Financial Statements.

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The Company reviews goodwill for impairment annually at the beginning of its fourth calendar quarter or whenever events or changes in circumstances that would more-likely-than-not reduce the fair value of a reporting unit below its carrying amount. The Company manages and operates as one reporting unit. The Company performed a qualitative assessment of the goodwill at the Company level as a whole and concluded that it was more-likely-than-not that goodwill was not impaired as of December 31, 2017 and 2016. In assessing the qualitative factors, the Company considered among others these key factors: (i) changes in the industry and competitive environment; (ii) market capitalization; (iii) stock price; and (iv) overall financial performance.

***Intangible assets, net***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **As of December 31, 2017** | | | |  |  |  | **Weighted** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  | **average** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  | **remaining** | |  |
|  |  |  |  |  |  | **Accumulated** | | |  |  |  | **amortization** | |  |
|  |  |  | **Gross** | |  |  | **Net** | | **period** | |  |
|  |  |  |  | **Amortization** | | |  | **(years)** | |  |
|  |  |  |  |  |  | **(in thousands)** | | |  |  |  |  |  |  |
|  | Existing and core technology—product | $638,738 | | | $ (176,199) | | | | $462,539 | | | 4.67 | |  |
|  | Technology licenses | 158,997 | | |  |  | (70,759) | | 88,238 | | | 4.11 | |  |
|  | Customer contracts and relationships | 53,288 | | |  |  | (9,238) | | 44,050 | | | 8.62 | |  |
|  | Trade name |  | 15,596 | |  |  | (5,954) | | 9,642 | | | 3.63 | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total amortizable intangible assets | $866,619 | | | $ | | (262,150) | | $604,469 | | | 4.42 | |  |
|  | IPRD |  | 60,300 | |  |  | — | | 60,300 | | |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total intangible assets | $926,919 | | | $ (262,150) | | | | $664,769 | | |  |  |  |
|  |  |  |  |  |  |  | |  |  |  |  |  |  |  |
|  |  |  |  |  | **As of December 31, 2016** | | | |  |  |  | **Weighted** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  | **average** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  | **remaining** | |  |
|  |  |  |  |  |  | **Accumulated** | | |  |  |  | **amortization** | |  |
|  |  |  | **Gross** | |  |  | **Net** | | **period** | |  |
|  |  |  |  | **Amortization** | | |  | **(years)** | |  |
|  |  |  |  |  |  | **(in thousands)** | | |  |  |  |  |  |  |
|  | Existing and core technology—product | $ 620,110 | | | $ | | (78,017) | | $542,093 | | | 5.63 | |  |
|  | Technology licenses | 130,676 | | |  |  | (48,225) | | 82,451 | | | 4.68 | |  |
|  | Customer contracts and relationships | 53,315 | | |  |  | (4,161) | | 49,154 | | | 9.62 | |  |
|  | Trade name |  | 15,596 | |  |  | (3,309) | | 12,287 | | | 4.63 | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total amortizable intangible assets | $819,697 | | | $ | | (133,712) | | $685,985 | | | 5.18 | |  |
|  | IPRD |  | 78,900 | |  |  | — | | 78,900 | | |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total intangible assets | $898,597 | | | $ (133,712) | | | | $764,885 | | |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Amortization expense was $128.4 million, $52.6 million and $9.6 million for the years ended December 31, 2017, 2016 and 2015, respectively. Certain fully amortized intangible assets have been eliminated from both the gross and accumulated amortization amounts.

The following table presents the estimated future amortization expense of amortizable intangible assets as of December 31, 2017 (in thousands):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2018 | $132,676 | |  |  |
| 2019 | 130,185 | |  |  |
| 2020 | 125,433 | |  |  |
| 2021 | 117,169 | |  |  |
| 2022 | 80,291 | |  |  |
| 2023 and thereafter |  | 18,715 |  |  |
|  | $604,469 | |  |  |
|  | 22 |  |  |  |
|  |  |  |  |

**7. Restructuring Accrual**

There was no restructuring activity during the year ended December 31, 2015. The following table summarizes the activity and the outstanding balances of the restructuring liability as of and for the years ended December 31, 2016 and 2017:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Severance and** | | |  | **Excess Facility** | | |  | **Total** | |  |
|  | **other benefits** | | |  | **Related Cost** | | |  |  |
|  |  |  |  | **(in thousands)** | | | |  |  |  |  |
| Balance at December 31, 2015 | $ | — | | $ | | — | | $ | — | |  |
| Assumed restructuring liabilities from the acquisition of QLogic |  | — | |  |  | 4,215 | |  | 4,215 | |  |
| Additions |  | 12,018 | |  |  | — | |  | 12,018 | |  |
| Cash payments |  | (10,857) | |  |  | (1,060) | |  | (11,917) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at December 31, 2016 |  | 1,161 | |  |  | 3,155 | |  | 4,316 | |  |
| Cash payments |  | (965) | |  |  | (2,493) | |  | (3,458) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at December 31, 2017 | $ | 196 | | $ | | 662 | | $ | 858 | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

Following the acquisition of QLogic, the Company assumed outstanding liabilities from the restructuring initiatives undertaken by QLogic prior to the acquisition. This restructuring initiative was designed to enhance product focus and streamline the business operations. The assumed restructuring liability was related to the excess facility which was calculated based on the discounted future lease payments. This non-recurring fair value measurement was classified as Level 3 fair value hierarchy measurements and disclosures. This restructuring initiative included an excess facility which is expected to be settled over the term of the lease through April 2018. In addition, the Company recorded employee severance expense of $12.0 million within sales, general and administrative expenses on the consolidated statement of operations for the year ended December 31, 2016 related to actions following the acquisition of QLogic and integration of QLogic with the Company.

**8. Stockholders’ Equity**

***Common and Preferred Stock***

As of December 31, 2017 and 2016, the Company is authorized to issue 200,000,000 shares of $0.001 par value common stock and 10,000,000 shares of $0.001 par value preferred stock. The Company is authorized to issue preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption and liquidation preferences.

***2001 Stock Incentive Plan***

The Company’s 2001 Stock Incentive Plan (the “2001 Plan”) expired as of December 31, 2011. Options granted under the 2001 Plan were either incentive stock options or non-statutory stock options as determined by the Company’s board of directors. Options granted under the 2001 Plan vested at the rate specified by the plan administrator, typically with 1/8th of the shares vesting six months after the date of grant and 1/48th of the shares vesting monthly thereafter over the next three and one half years to four and one half years. Options expire ten years from the date of grant.

***2007 Equity Incentive Plan***

Upon completion of its IPO in May 2007, the Company adopted the 2007 Equity Incentive Plan, the (“2007 Plan”), which initially reserved 5,000,000 shares of the Company’s common stock. The 2007 Plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights, performance stock awards, and other forms of equity compensation (collectively, “stock awards”), and performance cash awards, all of which may be granted to employees (including officers), directors, and consultants or affiliates. Awards granted under the 2007 Plan vest at the rate specified by the plan administrator,

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for stock options, typically with 1/8th of the shares vesting six months after the date of grant and 1/48th of the shares vesting monthly thereafter over the next three and one half years and for restricted stock unit awards typically with quarterly vesting over four years. Awards expire seven to ten years from the date of grant. Following the adoption of the 2016 Equity Incentive Plan (the “2016 EIP”) as discussed below, no additional awards will be granted from the 2007 Plan.

***2016 Equity Incentive Plan***

On June 15, 2016, the Company adopted the 2016 EIP, which initially reserved for issuance 3,600,000 shares of the Company’s common stock. The 2016 EIP is intended as the successor to and continuation of the Company’s 2007 Plan. The 2016 EIP provides for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance stock awards, performance cash awards and other stock awards, which may be granted to employees, directors and consultants. Following the effective date, no additional awards may be granted under the 2007 Plan. All outstanding awards granted under the 2007 EIP will remain subject to the terms of such plan, provided however, that the following shares of common stock subject to any outstanding stock award granted under the 2007 Plan (collectively, the “2007 Plan Returning Shares”) will immediately be added to the share reserve as and when such shares become 2007 Plan Returning Shares and become available for issuance pursuant to awards granted under the 2016 EIP: (i) any shares subject to such stock award that are not issued because such stock award or any portion thereof expires or otherwise terminates without all of the shares covered by such stock award having been issued; (ii) any shares subject to such stock award that are not issued because such stock award or any portion thereof is settled in cash; and (iii) any shares issued pursuant to such stock award that are forfeited back to or repurchased by the Company because of the failure to meet a contingency or condition required for the vesting of such shares. As of December 31, 2017, there were 2,421,854 shares reserved for issuance under the 2016 EIP.

***QLogic 2005 Plan***

Following the closing of the acquisition of QLogic, the Company assumed and registered to continue the QLogic 2005 Performance Incentive Plan (the “QLogic 2005 Plan”). The total shares available for future grant registered under the QLogic 2005 Plan was 3,612,039 shares of the Company’s common stock. The QLogic 2005 Plan provides for the issuance of restricted stock unit awards, incentive and non-qualified stock options, and other stock-based incentive awards. Restricted stock unit awards, or RSUs, granted pursuant to the QLogic 2005 Plan to employees subject to a service condition generally vest over four years from the date of grant. Stock options granted pursuant to the QLogic 2005 Plan to employees have ten-year terms and generally vest over four years from the date of grant. Shares issued in respect of any full value award granted under this plan shall be counted against the shares available for future grant as 1.75 shares for every one share issued in connection with such award. Full value award means any award under the QLogic 2005 Plan that is not a stock option grant or a stock appreciation right grant. As of December 31, 2017, there were 1,200,046 shares reserved for issuance under the QLogic 2005 Plan.

***Stock Options***

Detail related to stock option activity is as follows:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Weighted Average** | | | |  |
|  |  | **Number of Options** | | |  |  | **Exercise Price** | |  |
|  |  |  |  | **Per** | |  |
|  |  |  | **Outstanding** | |  |  | **Share** | |  |
|  | Balance as of December 31, 2014 |  | 2,626,260 |  |  | $ | 20.62 |  |  |
|  | Options granted | 87,178 | |  |  |  | 64.70 |  |  |
|  | Options exercised | (685,439) | | |  |  | 14.02 |  |  |
|  | Options cancelled and forfeited |  | — |  |  |  | — | |  |
|  | Balance as of December 31, 2015 | 2,027,999 | |  |  |  | 24.75 |  |  |
|  | Options granted | 175,776 | |  |  |  | 48.88 |  |  |
|  | Assumed from the acquisition | 1,045 | |  |  |  | 34.63 |  |  |
|  | Options exercised | (1,010,670) | | |  |  | 11.31 |  |  |
|  | Options cancelled and forfeited | (161) | | |  |  | 32.40 |  |  |
| Balance as of December 31, 2016 | |  | 1,193,989 |  |  |  | 39.68 |  |  |
|  | Options granted | 145,574 | |  |  |  | 65.82 |  |  |
|  | Options exercised | (205,535) | | |  |  | 31.50 |  |  |
|  | Options cancelled and forfeited | (4,012) | | |  |  | 8.60 |  |  |
| Balance as of December 31, 2017 | |  | 1,130,016 |  |  |  | 44.65 |  |  |
|  |  | 24 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |

The aggregate intrinsic value for options exercised during the years ended December 31, 2017, 2016 and 2015, was $7.3 million, $41.5 million and

$37.4 million, respectively, representing the difference between the closing price of the Company’s common stock at the date of exercise and the exercise price paid.

The following table summarizes information about stock options outstanding as of December 31, 2017:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Outstanding Options** | | | |  |  |  | **Exercisable Options** | | | | |  |  |  |  |  |
|  |  |  |  |  | **Weighted** | | **Weighted** | | |  |  |  | **Weighted** | | |  |  |  |  |
|  |  |  |  |  | **Average** | |  |  |  |  | **Aggregate** | |  |
|  |  |  | **Number of** | | **Remaining** | | **Average** | | | **Number of** | |  | **Average** | | |  |  |
| **Exercise Prices** | | | **Contractual** | | **Exercise** | | |  | **Exercise** | | |  | **Intrinsic** | |  |
| **Shares** | | **Term** | |  | **Price** | | **shares** | |  |  | **Price** | |  | **Value** | |  |
|  | $25.99 - $33.44 |  | 42,029 |  | 1.77 |  | $ | 28.47 |  | 42,029 |  |  | $ | 28.47 |  |  |  |  |  |
|  | $35.73 - $37.22 |  | 323,252 | | 0.68 | |  | 36.46 | | 323,252 | |  |  | 36.46 | |  |  |  |  |
|  | $37.63 - $37.83 |  | 322,148 | | 2.60 | |  | 37.72 | | 316,020 | |  |  | 37.72 | |  |  |  |  |
|  | $38.24 - $43.97 |  | 25,059 | | 0.43 | |  | 42.01 | | 25,059 | |  |  | 42.01 | |  |  |  |  |
|  | $48.88 - $48.88 |  | 175,776 | | 5.12 | |  | 48.88 | | 80,559 | |  |  | 48.88 | |  |  |  |  |
|  | $50.83 - $76.38 |  | 241,752 |  | 7.12 |  |  | 64.86 | | 74,323 | |  |  | 63.58 | |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| $25.99 - $76.38 |  | 1,130,016 |  | 3.33 |  | $ | 44.65 | | 861,242 | | $ | | 40.19 | | $44,273,547 | | |  |
| Exercisable | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 861,242 |  | 2.14 |  | $ | 40.19 |  |  |  |  |  |  |  |  | $37,582,059 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Vested and expected to vest | | 1,130,016 |  | 3.33 | | $ | 44.65 | |  |  |  |  |  |  | $44,273,547 | | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

The aggregate intrinsic value for options outstanding at December 31, 2017, represents the difference between the weighted average exercise price and the closing price of the Company’s common stock at December 31, 2017, as reported on The NASDAQ Global Market, for all in the money options outstanding.

The estimated weighted-average grant date fair value of options granted for years ended December 31, 2017, 2016 and 2015 was $25.92 per share, $18.65 per share, and $23.79 per share, respectively. The fair value of each option grant for the years ended December 31, 2017, 2016 and 2015 were estimated on the date of grant using the Black-Scholes option valuation model using the assumptions below.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Year Ended December 31,** | | | |
|  | **2017** | **2016** | |  | **2015** |
| Risk-free interest rate | 1.89% |  | 1.11% |  | 1.34% to 1.41% |
| Expected life |  |  |  |  | 3.77 to 4.58 |
|  | 5.31 years |  | 4.96 years | | years |
| Dividend yield | 0% | 0% | |  | 0% |
| Volatility |  |  |  |  | 40.96% to |
|  | 40.84% | 42.51% | |  | 43.03% |

As of December 31, 2017, there was $5.2 million of unrecognized compensation cost related to stock options granted. The unrecognized compensation cost is expected to be recognized over a weighted average period of 2.53 years.

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***Restricted Stock Units***

A summary of the activity of RSU for the related periods are presented below:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **Weighted-** | |  |
|  |  | **Number of** | |  |  | **Average** | |  |
|  |  | **Grant Date Fair** | | | |  |
|  |  | **Shares** | | **Value Per Share** | | | |  |
|  | Balance as of December 31, 2014 | 2,464,747 |  |  | $ | 39.21 |  |  |
|  | Granted | 955,592 |  |  |  | 61.82 |  |  |
|  | Issued and released | (1,115,525) | |  |  | 40.94 |  |  |
|  | Cancelled and forfeited | (110,746) | |  |  | 45.82 |  |  |
|  | Balance as of December 31, 2015 | 2,194,068 |  |  |  | 47.85 |  |  |
|  | Granted | 2,482,048 |  |  |  | 53.22 |  |  |
|  | Assumed from the acquisition | 1,301,199 |  |  |  | 51.55 |  |  |
|  | Vested | (1,583,775) | |  |  | 47.60 |  |  |
|  | Cancelled and forfeited | (274,221) | |  |  | 53.37 |  |  |
| Balance as of December 31, 2016 | | 4,119,319 |  |  |  | 51.98 |  |  |
|  | Granted | 1,724,148 |  |  |  | 67.42 |  |  |
|  | Vested | (1,847,879) | |  |  | 52.29 |  |  |
|  | Cancelled and forfeited | (372,764) | |  |  | 59.59 |  |  |
| Balance as of December 31, 2017 | | 3,622,824 |  |  |  | 58.39 |  |  |
|  |  |  |  |  |  |  |  |  |

For the years ended December 31, 2017 and 2016, the Company issued 1,768,624 shares and 1,547,694 shares, respectively, of common stock in connection with the vesting of RSUs. The difference between the number of RSUs vested and the shares of common stock issued for the year ended December 31, 2017 was due to the RSUs withheld in satisfaction of minimum tax withholding obligations associated with the vesting of certain QLogic awards.

The total intrinsic value of the RSUs outstanding as of December 31, 2017 was $303.7 million, representing the closing price of the Company’s stock on December 31, 2017, multiplied by the number of RSUs expected to vest as of December 31, 2017.

In February 2015, the Company granted one-year and two-year performance based RSUs with grant date fair values of $2.1 million and $0.7 million, respectively. In February 2016 and 2017, the Company granted one-year performance based RSUs with grant date fair values of $2.9 million and

$3.6 million, respectively. The Company recorded the related stock-based compensation expense based on its evaluation of the probability of achieving the milestones of all of the outstanding performance-based RSUs at each reporting periods.

The Company also granted a four-year vesting market-based RSU in February 2015 with a grant date fair value of $1.5 million. In February 2016 and 2017, the Company granted three-year vesting market-based RSUs with grant date fair values of $3.3 million and $3.1 million, respectively. These market-based RSUs will vest if: (i) during the performance period, the Company’s total stockholder return is equal to or greater than that of the industry index set by the Compensation Committee of the Board of Directors; and (ii) the recipient remains in continuous service with the Company through such vesting period. The fair value of the market-based RSUs were determined by management using the Monte Carlo simulation method which took into account multiple input variables that determine the probability of satisfying the market conditions stipulated in the award. This method requires the input of assumptions, including the expected volatility of the Company’s common stock, and a risk-free interest rate, similar to assumptions used in determining the fair value of the stock option grants discussed above.

As of December 31, 2017, there was $177.6 million of unrecognized compensation costs related to RSUs. The unrecognized compensation cost is expected to be recognized over a weighted average period of 2.21 years.

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***Stock-Based Compensation***

The following table presents the detail of stock-based compensation expense amounts included in the consolidated statements of operations for each of the periods presented:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Year Ended December 31,** | | | | | | | |  |  |
|  |  |  | **2017** |  |  |  |  | **2016** |  |  | **2015** |  |
|  |  |  |  |  |  | **(in thousands)** | | | |  |  |  |
| Cost of revenue | $ | | 3,038 | |  | $ | | 1,389 | | $ | 765 | |
| Research and development |  |  | 65,645 | | |  |  | 41,701 | |  | 29,085 | |
| Sales, general and administrative |  |  | 34,188 | | |  |  | 42,240 | |  | 18,447 | |
|  |  | $ | 102,871 |  |  |  | $ | 85,330 |  | $ | 48,297 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

The total stock-based compensation cost capitalized as part of inventory as of December 31, 2017 and 2016 was not material.

**9. Income Taxes**

The following table presents the provision for (benefit from) income taxes and the effective tax rates:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | **Year Ended December 31,** |  |  |
|  |  | **2017** | **2016** | **2015** |  |
|  |  |  | **(in thousands)** |  |  |
| Loss before income taxes | $(85,619) | | $(146,212) | $(15,378) | |
| Provision for (benefit from) income taxes | (16,760) | | 997 | 1,682 |  |
| Effective tax rate | 19.6% | | (0.7)% | (10.9)% | |

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act (the “Act”), which significantly changes the existing U.S. tax laws. Major reforms in the legislation include reduction in the corporate tax rate from 35.0% to 21.0% and a move from a worldwide tax system to a territorial system. As a result of enactment of the legislation, we recognized a tax benefit of $11.6 million in our consolidated statement of operations for the year ended December 31, 2017 primarily due to reduction of our net long-term deferred tax liabilities recorded on the Company’s consolidated balance sheet. The changes included in the Act are broad and complex. The final transition impacts of the Act may differ from the above estimate, possibly materially, due to, among other things, changes in interpretations of the Act, any legislative action to address questions that arise because of the Act, any changes in accounting standards for income taxes or related interpretations in response to the Act, or any updates or changes to estimates that the Company has utilized to calculate the transition impacts, including impacts from changes to current year earnings estimates, cumulative unrepatriated foreign earnings and foreign exchange rates of foreign subsidiaries. The SEC has issued guidance that would allow for a measurement period of up to one year after the enactment date of the Act to finalize the recording of the related tax impacts. Any adjustments to these provisional amounts will be reported as a component of income tax expense or benefit in the reporting period in which any such adjustments are determined, which will be no later than the fourth quarter of 2018.

The benefit from income taxes for the year ended December 31, 2017 was mainly due to the income tax benefit as a result of the Act as discussed above, a release of the unrecognized tax benefit liability of $5.2 million mainly due to the expiration of the statutes of limitations and a partial release of the valuation allowance on net deferred tax assets of $2.4 million due to the increase in taxable income as a result of the reclassification of an indefinite-lived to a finite-lived intangible asset. These tax benefits were partially offset by the provision for income taxes on earnings in foreign jurisdictions. The provision for income taxes for the years ended December 31, 2016 and 2015 were primarily related to tax on earnings in foreign jurisdictions.

As a result of the QLogic acquisition, during the third quarter of 2016, the Company recognized a net deferred tax liability mainly related to book-tax basis difference on purchased intangible assets. This net deferred tax liability was treated as a source of taxable income to support the realizability of the Company’s pre-existing deferred tax assets. As such, the Company recorded a partial release of its net deferred tax assets valuation allowance of $82.9 million to offset against the deferred tax liability. However, during the fourth quarter of 2016, the Company was

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able to assess and measure an additional deferred tax asset that existed as of the acquisition date of QLogic. Due to the identification of this additional deferred tax asset, the Company made adjustments in the fourth quarter of 2016 to certain tax balances including the reversal of the partial release of the valuation allowance recorded in the third quarter of 2016.

The domestic and foreign components of income (loss) before income tax expense were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Year Ended December 31,** | | | | | | | | | |  |  |  |  |  |  |
|  |  |  | **2017** | |  |  |  | **2016** | | |  |  |  |  | **2015** | | |  |  |  |
|  |  |  |  |  |  |  | **(in thousands)** | | | | | | | |  |  |  |  |  |  |
|  | Domestic | $(104,659) | | | |  |  | $(147,752) | | | | | |  | $(37,109) | | | | |  |
|  | Foreign |  | 19,040 | | |  |  | 1,540 | | | | | |  | 21,731 | | | | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | $ (85,619) | | |  |  | $(146,212) | | | | | |  | $(15,378) | | | | |  |
| The provision for (benefit from) income taxes consists of the following: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  | **Year Ended December 31,** | | | | | | | | | | | | | |  |
|  |  |  | | **2017** | | |  | **2016** | | | | | |  | **2015** | | | |  |  |
|  |  |  |  |  |  |  |  | **(in thousands)** | | | | | | |  |  |  |  |  |  |
|  | Current tax provision (benefit) |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Domestic | $ (5,059) | | | | | | $ | | |  | 51 | | | $ (15) | | | | |  |
|  | Foreign | 4,945 | | | | | | 3,084 | | | | | | | 1,034 | | | | |  |
|  |  |  | | (114) | | |  |  |  | 3,135 | | | |  |  | | 1,019 | |  |  |
|  | Deferred tax provision (benefit) |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Domestic | (11,755) | | | | | |  |  |  |  | 775 | | | 564 | | | | |  |
|  | Foreign | (4,891) | | | | | | (2,913) | | | | | | | 99 | | | | |  |
|  |  |  | | (16,646) | | |  |  |  | (2,138) | | | |  |  | | 663 | |  |  |
|  | Provision for (benefit from) income taxes | $(16,760) | | | | | | $ | | |  | 997 | | | $1,682 | | | | |  |
| The Company’s effective tax rate differs from the United States federal statutory rate as follows: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  | **Year Ended December 31,** | | | | | | | | | | | | | |  |
|  |  |  | | **2017** | |  |  |  | **2016** | |  |  |  |  |  | **2015** | |  |  |  |
|  | Income tax at statutory rate |  | | 35.0% | | |  |  | 35.0% | | | | |  |  | 35.0% | | | |  |
|  | Stock compensation costs | 5.1 | | | | |  | (2.9) | | | | |  |  | (13.1) | | | |  |  |
|  | Enactment of U.S. tax reform | (60.0) | | | | |  |  |  | — | |  |  |  |  |  | — | | |  |
|  | State taxes, net of federal benefit | 0.2 | | | | |  | (0.1) | | | | |  |  | (0.1) | | | |  |  |
|  | Foreign income inclusion in the United States | (1.1) | | | | |  | 6.8 | | | |  |  |  | (4.9) | | | |  |  |
|  | Research and development credits | 8.9 | | | | |  | 4.1 | | | |  |  |  | 42.6 | | | |  |  |
|  | Foreign tax rate differential | 7.7 | | | | |  | (32.1) | | | | |  |  | 41.5 | | | |  |  |
|  | Change in valuation allowance | 19.3 | | | | |  | (9.7) | | | | |  |  | (111.8) | | | |  |  |
|  | U.S. federal release related to expiration of statute of limitations | 4.9 | | | | |  |  |  | — | |  |  |  |  |  | — | | |  |
|  | Other |  | | (0.4) | | |  | (1.8) | | | | |  |  | (0.1) | | | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Total |  | | 19.6% | | |  | (0.7)% | | | | | |  | (10.9)% | | | | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

On July 27, 2015, the United States Tax Court in Altera Corp. v. Commissioner, 145 T.C. No. 3 (2015) issued an opinion with respect to Altera’s litigation with the Internal Revenue Service, concerning the treatment of stock-based compensation expense in an inter-company cost sharing arrangement. In ruling in favor of Altera, the Tax Court invalidated the portion of the Treasury regulations requiring the inclusion of stock-based compensation

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expense in such inter-company cost-sharing arrangements. Accordingly, the Company adjusted its inter-company arrangement to reflect the recent ruling in 2015. QLogic had a similar global structure prior to the acquisition and had not adjusted its inter-company arrangement to exclude stock-based compensation expense. In July 2017, as part of a global restructuring and legal entity realignment, the Company executed a harmonized inter-company cost sharing arrangement and continued to exclude stock-based compensation expense under the Tax Court’s opinion issued in July 2015 on a consolidated basis. There was no material impact on the Company’s consolidated financial statements as of and for the year ended December 31, 2017 considering the full valuation allowance on the Company’s federal and state net deferred tax assets.

Effective January 1, 2017 the Company adopted the updated guidance on stock-based compensation. Under the new guidance, all excess tax benefits and tax deficiencies are recognized in the income statement as they occur.

The tax effects of the temporary differences that give rise to deferred tax assets and liabilities are as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **As of December 31,** | | | | | |
|  |  |  | **2017** |  |  |  | **2016** |  |
|  |  |  | **(in thousands)** | | | | |  |
| Deferred tax assets: |  |  |  |  |  |  |  |  |
| Tax credits | $ | | 107,690 |  | $ | | 77,569 |  |
| Net operating loss carryforwards |  |  | 215,336 |  |  |  | 257,286 |  |
| Capitalized research and development |  |  | 8,365 |  |  |  | 15,077 |  |
| Depreciation and amortization |  |  | 1,993 |  |  |  | 389 |  |
| Stock compensation |  |  | 9,546 |  |  |  | 14,372 |  |
| Other |  |  | 17,643 |  |  |  | 9,887 |  |
| Gross deferred tax assets |  |  | 360,573 |  |  |  | 374,580 |  |
| Less: valuation allowance |  |  | (326,114) | |  |  | (315,915) | |
| Net deferred tax assets |  |  | 34,459 |  |  |  | 58,665 |  |
| Deferred tax liabilities: |  |  |  |  |  |  |  |  |
| Intangible assets |  |  | (36,108) | |  |  | (55,788) | |
| Unremitted foreign earnings |  |  | — | |  |  | (21,171) | |
| Net deferred tax liabilities |  | $ | (1,649 | ) |  | $ | (18,294 | ) |
|  |  |  |  |  |  |  |  |  |
| Reported As |  |  |  |  |  |  |  |  |
| Deferred tax assets | $ | | 1,037 |  | $ | | 480 |  |
| Deferred tax liabilities |  |  | (2,686) | |  |  | (18,774) | |
| Net deferred tax liabilities |  | $ | (1,649 | ) |  | $ | (18,294 | ) |
|  |  |  |  |  |  |  |  |  |

As of December 31, 2017, the Company had total net operating loss carryforwards for federal and states of California and Massachusetts income tax purposes of $1,096.0 million and $562.6 million, respectively. If not utilized, these federal and state net operating loss carryforwards will expire beginning in 2020 and 2018, respectively. Effective January 1, 2017, the Company adopted the updated guidance on stock-based compensation, the Company recognized deferred tax assets of $101.7 million for the excess tax benefits that arose directly from tax deductions related to equity compensation greater than the amounts recognized for financial reporting and also recognized an increase of an equal amount in the valuation allowance against those deferred tax assets.

As of December 31, 2017, the Company also had federal and state research and development tax credit carryforwards of approximately $69.2 million and $83.4 million, respectively. The federal and state tax credit carryforwards will expire commencing 2020 and 2018, respectively, except for the California research tax credits which carry forward indefinitely. The Company also has various foreign and alternative minimum tax credits of approximately $3.7 million.

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The Company’s net deferred tax assets relate predominantly to its United States tax jurisdiction. A full valuation allowance against the Company’s federal and state net deferred tax assets has been in place since 2012. The Company periodically evaluates the realizability of its net deferred tax assets based on all available evidence, both positive and negative. The realization of net deferred tax assets is dependent on the Company’s ability to generate sufficient future taxable income during periods prior to the expiration of tax attributes to fully utilize these assets. The Company weighed both positive and negative evidence and determined that there is a continued need for a valuation allowance on its federal and state deferred tax assets as December 31, 2017 and 2016.

The Company reviews whether the utilization of its net operating losses and research credits are subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Utilization of these carryforwards is restricted and results in some amount expiring prior to benefiting the Company. The deferred tax assets shown above have been adjusted to reflect these expiring carryforwards.

The Company continues to repatriate cash from certain offshore operations in accordance with management’s review of the Company’s cash position and anticipated cash needs for investment in the Company’s core business, including interest charges and principal prepayments to the Company’s outstanding Term Loan Facility. The Company has changed its assertion regarding the repatriation of cash during the second quarter of 2017 in that the current and future earnings of certain foreign entities will no longer be indefinitely reinvested, and that the Company provides deferred taxes for the anticipated income taxes. The enactment of the Act during the fourth quarter of 2017 provides a one-time deemed repatriation tax, or “transition tax” on undistributed foreign earnings which required the Company to reclassify its deferred tax liabilities related to undistributed foreign earnings to income tax payable. The one-time transition tax is based on the Company’s total post-1986 earnings and profits, or “E&P”. The Company recorded a provisional amount for the transition tax resulting in a reduction of $180.1 million of net operating loss carryforwards. However, given the net operating losses and the full valuation allowance on the Company’s net deferred income tax assets in the U.S., the Company will have no cash tax impact in the U.S. The Company has not finalized its calculation of the E&P for these foreign subsidiaries. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when the Company finalizes the calculation of E&P previously deferred from U.S. federal taxation and finalizes the amounts held in cash or other specified assets.

Under the provisions of the Act, all foreign earnings are subject to U.S. taxation. As a result, the Company intends to repatriate substantially all foreign earnings that have been taxed in the U.S. to the extent that the foreign earnings are not restricted by local laws or accounting rules, and there are no substantial incremental costs associated with repatriating the foreign earnings. The Company continues to maintain its indefinite reinvestment policy with respect to immaterial earnings from certain subsidiaries and the associated tax cost is insignificant.

The following table summarizes the activity related to the unrecognized tax benefits:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Year Ended December 31,** | | | | | | | | |
|  |  | **2017** |  |  |  |  | **2016** |  | **2015** |  |
|  |  |  |  |  | **(in thousands)** | | | |  |  |
| Balance at beginning of the year | $202,415 | | |  | $ | | 19,709 | | $16,270 | |
| Gross increases related to current year’s tax positions | 5,517 | | |  |  |  | 5,640 | | 3,138 | |
| Gross increases (decreases) resulting from the acquisition of QLogic | (80,908) | | | |  |  | 179,366 | | — | |
| Gross increases (decreased) related to prior year’s tax positions | 1,151 | | |  |  |  | (383) | | 398 | |
| Releases related to settlements/ statutes expiration | (7,883) | | | |  |  | (1,917) | | (97) | |
| Balance at the end of the year |  | $120,292 |  |  |  | $ | 202,415 |  | $19,709 |  |
|  |  |  |  |  |  |  |  |  |  |  |

The gross increase resulting from the acquisition of QLogic in 2016 was primarily related to the unrecognized tax benefits against the additional tax assets identified in the measurement period but existed as of the acquisition date. During the third quarter of 2017, the Company filed the final pre-acquisition of QLogic US federal income tax

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return and made measurement period adjustments to the acquired tax accounts of QLogic. The change had no income statement impact due to the full valuation allowance against the Company’s federal and state net deferred tax assets. Also included in the unrecognized tax benefits at December 31, 2017 is $5.2 million that, if recognized, would reduce the Company’s annual effective tax rate after considering the valuation allowance. The Company’s practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company has accrued $1.4 million potential penalties and interest as of December 31, 2017.

Beginning in 2011, the Company is operating under tax incentives in Singapore, which are effective through February 2020. The tax incentives are conditional upon the Company meeting certain employment, revenue, and investment thresholds. The Company realized benefits from the reduced tax rate for the periods presented as follows:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Year Ended December 31,** | | | | | | |  |
|  |  |  | **2017** |  | **2016** | |  | **2015** |  |  |
|  |  |  |  |  | **(in thousands)** | | |  |  |  |
| Provision for Singapore entity at statutory tax rate of 17% | $ | | 1,583 | | $ 973 | | | $ 811 | |  |
| Provision for Singapore entity in the consolidated statement of operations |  |  | 555 |  |  | 363 |  | 310 | |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Benefit from preferential tax rate differential | $ | | 1,028 | | $ 610 | | | $ 501 | |  |
| Impact of tax benefits per basic and diluted share |  |  |  |  |  |  |  |  |  |  |
|  | $ | 0.02 |  |  | $0.01 |  | $0.01 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |

The Company’s major tax jurisdictions are the United States federal government, the states of California and Massachusetts, China, India, Ireland, Israel, Japan, Singapore and the United Kingdom. The Company files income tax returns in the United States federal jurisdiction, the states of California and Massachusetts, various other states, and foreign jurisdictions in which it has a subsidiary or branch operations. The United States federal corporation income tax returns beginning with the 2000 tax year remain subject to examination by the Internal Revenue Service, or IRS. The California corporation income tax returns beginning with the 2000 tax year remain subject to examination by the California Franchise Tax Board. As of December 31, 2017, QLogic’s 2014 tax year is under audit by the IRS. There are routine on-going foreign tax audits in certain jurisdictions such as India, Israel and Taiwan. The Company does not expect any material tax adjustments from any of these audits.

**10. Retirement Plan**

The Company has established a defined contribution savings plan under Section 401(k) of the Internal Revenue Code for substantially all United States employees. This plan covers substantially all United States employees who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax basis. The Company matches 50% of the employees’ annual contribution up to two thousand dollars per employee. The Company contributions to the plan may be made at the discretion of the Company’s board of directors. The defined contribution expense included in the Company’s condensed consolidated statements of operations were not material for the periods presented.

In connection with local foreign laws, the Company is required to have a tenured-based defined benefit plan for its employees in certain non-US locations. The Company’s tenured-based payout liability is calculated based on the salary of each employee multiplied by the years of such employee’s employment, and is reflected on the Company’s consolidated balance sheets in other non-current liabilities on an accrual basis. The total expense and total obligation for these plans were not material to the consolidated financial statements.

**11. Debt**

On August 16, 2016, the Company entered into a Credit Agreement with JPMorgan Chase Bank, N.A. (“JPMCB”), as administrative agent and collateral agent, the other agents party thereto and the lenders referred to therein (collectively, the “Lenders”). The Lenders provided (i) a $700.0 million six year term B loan facility (the “Initial

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Term B Loan Facility”) and (ii) a $50.0 million interim term loan facility (the “Interim Term Loan Facility”, (i) and (ii) together, the “Term Facility”) to finance the acquisition of QLogic and pay fees and expenses of such acquisition. The outstanding debt under the Term Facility are collateralized by a lien on substantially all of the Company’s assets. In October 2016, the Company paid the outstanding Interim Term Loan Facility.

The Initial Term B Loan Facility will mature on August 16, 2022 and requires quarterly principal payments commencing on December 31, 2016 equal to

0.25% of the aggregate original principal amount, with the balance payable at maturity (in each case subject to adjustment for prepayments). In January 2017, the Company made prepayments of $86.0 million towards the outstanding principal balance of the Initial Term B Loan Facility and recorded additional amortization of the debt financing costs of $2.5 million associated with these principal payments in the first quarter of 2017.

The interest rates applicable to loans outstanding under the original Credit Agreement with respect to the Initial Term B Loan Facility are, at the Company’s option, equal to either a base rate plus a margin of 2.00% per annum or LIBOR plus a margin of 3.00% per annum. In no event shall the LIBOR for any interest period be less than 0.75% with respect to the Initial Term B Facility. On March 20, 2017, the Company entered into an amendment to its Credit Agreement. The amendment provides for among other things, a reduction of the interest rate margin by 0.75% per annum, substantially all of which was treated as a debt modification. As such, the Company wrote-off an immaterial amount of the deferred financing costs associated with the extinguished portion of the debt in the first quarter of 2017 and continues to amortize the remaining unamortized deferred financing costs over the remaining term of the Initial Term B Loan Facility.

As of December 31, 2017 and 2016, the carrying value of the Term Facility approximates the fair value basis. The Company classified the Term Loan Facility under Level 2 of the fair value measurement hierarchy as the borrowings are not actively traded and have variable interest structure based upon market rates currently available to the Company for debt with similar terms and maturities. The following table summarizes the outstanding borrowings from the Initial Term B Loan Facility as of the periods presented:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **As of December 31,** | | | | | |  |
|  |  |  |  | **2017** |  |  |  | **2016** |  |  |
|  |  |  |  | **(in thousands)** | | | | |  |  |
|  | Principal outstanding | $ | | 609,189 |  | $ | | 698,250 |  |  |
|  | Unamortized deferred financing costs |  |  | (12,956) | |  |  | (18,971) | |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Principal outstanding, net of unamortized deferred financing costs | $ | | 596,233 |  | $ | | 679,279 |  |  |
| Current portion of long-term debt | |  |  |  |  |  |  |  |  |  |
|  | $ | 3,270 |  |  | $ | 3,865 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | Long-term debt | $ | | 592,963 |  | $ | | 675,414 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |

For the year ended December 31, 2017 and 2016, the Company recognized contractual interest expense on debt of $22.0 million and $10.2 million, respectively, and amortization of deferred financing costs of $6.0 million and $1.6 million, respectively. Unamortized deferred financing costs was recorded as a reduction to principal outstanding in the consolidated balance sheets and is being amortized over the term of the Term Facility.

The Credit Agreement contains customary representations and warranties and affirmative and negative covenants that, among other things, restrict the ability of the Company and its subsidiaries to create or incur certain liens, incur or guarantee additional indebtedness, merge or consolidate with other companies, payment of dividends, transfer or sell assets and make restricted payments. These covenants are subject to a number of limitations and exceptions set forth in the Credit Agreement. The Company was in compliance with these covenants as of December 31, 2017.

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**12. Segment and Geographic Information**

Operating segments are based on components of the Company that engage in business activities that earn revenue and incur expenses and (a) whose operating results are regularly reviewed by the Company’s chief operating decision maker, or CODM, to make decisions about resource allocation and performance and

1. for which discrete financial information is available. The Company manages and operates as one reportable segment. The acquisition of QLogic did not change the Company’s reportable segment as management views and operates the combined companies as one reportable segment. Following the acquisition of QLogic, the Company immediately integrated QLogic into the Company’s existing operations, engineering groups, sales distribution networks and management structure. The Company’s net revenue consists primarily of the sale of semiconductor products and the Company also derives revenue from licensing software. The revenue from these sources is classified by the Company as product revenue. The Company also generates revenue from professional service arrangements which is categorized as service revenue. The total service revenue is less than 5% of the Company’s total net revenue for the years ended December 31, 2017, 2016 and 2015. The Company categorizes its net revenue in the following different markets:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Year Ended December 31,** | | | | | | | |
|  | **2017** |  | **2016** | |  | **2015** | |  |
|  |  |  | **(in thousands)** | | |  |  |  |
| Enterprise, service provider, broadband and consumer markets | $762,967 | | $461,299 | | | $318,006 | | |
| Datacenter market | 221,051 |  |  | 142,015 | | 94,738 | | |
|  |  |  |  |  |  |  |  |  |
|  | $984,018 |  | $603,314 | | | $412,744 | | |
|  |  |  |  |  |  |  |  |  |

Revenues by geographic area are presented based upon the ship-to location of the original equipment manufacturers, the contract manufacturers or the distributors who purchased the Company’s products. For sales to the distributors, their geographic location may be different from the geographic locations of the ultimate end customers.

Net revenues by geographic area are as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Year Ended December 31,** | | | | | | | |
|  | **2017** |  | **2016** | |  | **2015** | |  |
|  |  |  | **(in thousands)** | | |  |  |  |
| United States | $277,100 | | $196,727 | | | $128,431 | | |
| China | 228,833 | | 139,957 | | | 100,980 | | |
| Korea | 93,243 | | 54,367 | | | 28,578 | | |
| Finland | 62,019 | | 38,768 | | | 38,283 | | |
| Taiwan | 55,022 | | 39,839 | | | 34,533 | | |
| Other countries | 267,801 |  |  | 133,656 | | 81,939 | | |
|  |  |  |  |  |  |  |  |  |
| Total | $984,018 |  | $603,314 | | | $412,744 | | |
|  |  |  |  |  |  |  |  |  |

The following table sets forth tangible long lived assets, which consist of property and equipment, net by geographic regions:

**As of December 31,**



**2017** **2016**



**(in thousands)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | United States | $161,249 | | $ 115,328 | |  |
|  | All other countries |  | 31,266 |  | 35,534 |  |
|  | Total | $192,515 | | $150,862 | |  |
|  |  |  |  |  |  |  |

**13. Commitments and Contingencies**

*Operating and Capital Leases*

The Company leases its facilities under non-cancelable operating leases, which contain renewal options and escalation clauses, and expire on various dates ending in October 2027. On January 31, 2017, the Company entered into a lease agreement which expires in July 2027 to lease approximately 116,000 sq. ft. in a building located

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adjacent to the Company’s corporate headquarter in San Jose, California. On March 24, 2017, the Company entered into an amendment to the lease agreement dated November 18, 2016 for a building located in Irvine, California to extend the lease term through October 2027. Rent expense incurred under operating leases was $21.4 million, $11.3 million and $8.0 million for the years ended December 31, 2017, 2016 and 2015, respectively.

The Company acquired certain assets under capital lease and technology license obligations. The capital lease and technology license obligations include future cash payments payable primarily for license agreements with various vendors. For license agreements which qualify under capital lease and where installment payments extend beyond one year, the present value of the future installment payments are capitalized and included as part of intangible assets or property and equipment which is amortized over the estimated useful lives of the related assets.

The Company also has non-cancellable software and maintenance commitments which are generally billed on a quarterly basis, which are included in the operating lease disclosure included herein.

Minimum commitments under non-cancelable operating and capital lease agreements as of December 31, 2017 are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Capital lease** | | |  |  |  |  |  |  |  |  |  |
|  |  |  | **and** | |  |  |  |  |  |  |  |  |  |
|  |  | **technology** | | |  | **Operating** | | |  |  |  |  |  |
|  |  |  | **license** | |  |  |  | **Total** | |  |
|  |  | **obligations** | | |  |  | **leases** | |  |  |  |
|  |  |  |  |  | **(in thousands)** | | | |  |  |  |  |  |
| 2018 | $ | | 32,423 | | $ | | 18,193 | | $ | | 50,616 | |  |
| 2019 |  |  | 15,604 | |  |  | 19,591 | |  |  | 35,195 | |  |
| 2020 |  |  | — | |  |  | 18,726 | |  |  | 18,726 | |  |
| 2021 |  |  | — | |  |  | 18,292 | |  |  | 18,292 | |  |
| 2022 |  |  | — | |  |  | 42,974 | |  |  | 42,974 | |  |
| 2023 thereafter |  |  | — |  |  |  | 57,000 |  |  |  | 57,000 | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | $ | | 48,027 | | $ | | 174,776 | | $ | | 222,803 | |  |
| Less: Interest component (3.75% annual rate) |  |  | 1,222 |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Present value of minimum lease payment |  |  | 46,805 |  |  |  |  |  |  |  |  |  |  |
| Current portion of the obligations |  | |  | |  |  |  |  |  |  |  |  |  |
|  | $ | 31,435 |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Long-term portion of obligations | $ | | 15,370 | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

*Merger Termination Fee*

As discussed in Note 1 of Notes to Consolidated Financial Statements, the Marvell Merger Agreement provides Marvell and the Company with certain termination rights and, under certain circumstances specified in the Marvell Merger Agreement, the Company could be required to pay Marvell a termination fee of up to $180.0 million. Also, the Company recorded acquisition-related costs associated with the pending merger with Marvell in the year ended December 31, 2017, primarily for outside legal and external financial advisory fees and expect additional acquisition-related costs will be incurred through the closing of the Merger.

*Legal Proceedings*

Four putative class actions challenging the Merger have been filed on behalf of the Company’s shareholders in the United States District Court for the Northern District of California. On January 2, 2018, a putative class action was filed by Scott Fineberg (Fineberg v. Cavium et al.). On January 8, 2018, a putative class action was filed by Tammy Raul (Raul v. Cavium et al.). Also, on January 8, 2018, a putative class action was filed by Shiva Stein (Stein v. Cavium et al.). Finally, on January 12, 2018, a putative class action was filed by Jordan Rosenblatt (Rosenblatt v. Cavium et al.). All four complaints assert claims for violation of section 14(a), Rule 14a-9 and section 20(a) based on allegations that the Registration Statement on Form S-4 filed by Marvell with the SEC on December 21, 2017 omits material information. Two of the complaints are filed against the Company and its directors; the other two complaints name those defendants as well as the Marvell entities. All complaints also assert control person claims against the members of Company’s board of directors.

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A fifth putative class action challenging the Merger was filed on January 29, 2018 in the Superior Court of California, Monterey County, by Paul Berger on

behalf of the Company’s shareholders (Berger v. Ali et al.). The Berger complaint asserts claims for breach of fiduciary duty against the Company and its

directors based on allegations that the Merger provides shareholders insufficient value and that the proxy statement omits material information. On

February 13, 2018, the plaintiff in the Berger action filed a motion for a temporary restraining order, seeking to enjoin the shareholder vote pending a hearing

on a yet-to-be-filed preliminary injunction motion. A hearing on the motion for a temporary restraining order is scheduled for March 16, 2018.

Shareholders may file additional lawsuits challenging the Merger, which may name the Company, Marvell, members of the boards of directors of either party, or others as defendants. No assurance can be made as to the outcome of such lawsuits or the lawsuits described above, including the amount of costs associated with defending these claims or any other liabilities that may be incurred in connection with the litigation of these claims. If plaintiffs are successful in obtaining an injunction prohibiting the parties from completing the Merger on the agreed-upon terms, such an injunction may delay the completion of the Merger in the expected timeframe, or may prevent the Merger from being completed altogether.

From time to time, the Company may be involved in other legal proceedings arising in the ordinary course of its business. The Company is not currently a party to any other legal proceedings, the outcome of which, if determined adversely to the Company, the Company believes would have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

*QLogic Manufacturing Rights Buy-outs*

Following the closing of the acquisition of QLogic, the Company exercised non-cancellable options to purchase the manufacturing rights from a QLogic application specific integrated circuit, or ASIC, vendor effective at the closing of the acquisition of QLogic for certain QLogic ASIC products. In consideration for the exercise of the manufacturing rights, in September 2016, the Company paid an aggregate of $55.0 million manufacturing buy-out consideration and a one-time royalty buy-out fee of $10.0 million for certain QLogic ASIC products. Further, in September 2016, the Company entered into an ownership transfer and manufacturing rights agreement with another QLogic third-party ASIC vendor to acquire manufacturing rights and relieve the Company from future royalty obligations related to certain ASIC products for a total consideration of $10.0 million.

The Company determined that the total consideration amounting to $75.0 million as discussed above pertained to the use of technologies and the cost to

cancel the exclusive rights to manufacture the related products. The Company estimated the components of the total consideration attributable to the use of

technologies and the cost to cancel the exclusive manufacturing rights using market-based fair value estimation. The fair value estimation was determined

based on inputs that are unobservable and significant to the overall fair value measurement. It was also based on estimates and assumptions made by

management. As such this was classified as Level 3 fair value hierarchy measurements and disclosures. Based on the analysis, the Company attributed

$42.8 million of the total consideration to the use of the related technologies in future periods and recorded this amount as intangible assets in the condensed

consolidated balance sheets. The remaining balance of $32.2 million was attributed to the cost of cancelling the exclusive rights to manufacture the related

products and was recorded as cost of revenue in the consolidated statements of operations in the year ended December 31, 2016.

*Xpliant Manufacturing Rights Buy-out*

On March 30, 2015, Xpliant exercised its option to purchase the manufacturing rights to accelerate the takeover of manufacturing, and to relieve Xpliant from any further obligation to purchase product quantities from an Xpliant ASIC vendor. In consideration for this, Xpliant paid $7.5 million manufacturing rights licensing fee and a per-unit royalty fee for certain ASIC products sold to certain customers for a limited time. Considering the terms of the purchase of the manufacturing rights and the stage of development of the related ASIC products covered by the manufacturing rights, the Company recorded the full amount of the manufacturing rights licensing fee within research and development expense on the consolidated statement of operations in 2015.

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**Selected Quarterly Consolidated Financial Data (Unaudited)**

The following table summarizes certain unaudited quarterly financial information in each of the quarters in 2017 and 2016. The quarterly data have been prepared on the same basis as the audited consolidated financial statements. This should be read together with the consolidated financial statements and related notes included elsewhere in this Annual Report.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Quarter Ended** | | | |  |  |  |  |  |  |
|  |  | **December 31,** | | |  | **September 30,** | | |  |  | **June 30,** | | **March 31,** | |  |  |
| ***Fiscal 2017*** |  |  | **2017** |  |  |  | **2017** |  |  |  | **2017** |  |  | **2017** |  |  |
|  |  |  |  | **(in thousands, except per share data)** | | | | | | | |  |  |  |  |
| Revenue | $ | | 260,361 |  | $ | | 251,987 |  | $ | | 242,093 | | $229,577 | | |  |
| Gross Profit |  |  | 140,440 |  |  |  | 137,532 |  |  |  | 129,489 | |  | 92,123 | |  |
| Total operating expenses |  |  | 152,573 |  |  |  | 137,044 |  |  |  | 135,549 | |  | 131,110 | |  |
| Income (loss) from operations |  |  | (12,133) |  |  |  | 488 |  |  |  | (6,060) |  |  | (38,987) |  |  |
| Total other expense, net |  |  | (6,393) | |  |  | (6,216) | |  |  | (6,061) | |  | (10,257) | |  |
| Loss before income taxes |  |  | (18,526) |  |  |  | (5,728) |  |  |  | (12,121) |  |  | (49,244) |  |  |
| Provision for (benefit from) income taxes |  |  | (17,476) | |  |  | 486 | |  |  | (1,049) | |  | 1,279 | |  |
| Net loss |  | $ | (1,050 | ) |  | $ | (6,214) |  |  | $ | (11,072 | ) | $ (50,523 | | ) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net loss per common share, basic and diluted |  | $ | (0.02) | | $ | | (0.09) | | $ | | (0.16) | | $ | (0.75) | |  |
|  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  | **Quarter Ended** | | | |  |  |  |  |  |  |
|  |  | **December 31,** | | |  | **September 30,** | | |  |  | **June 30,** | | **March 31,** | |  |  |
| ***Fiscal 2016*** |  |  | **2016** |  |  |  | **2016** |  |  |  | **2016** |  |  | **2016** |  |  |
|  |  |  |  | **(in thousands, except per share data)** | | | | | | | |  |  |  |  |
| Revenue | $ | | 226,151 |  | $ | | 168,123 |  | $ | | 107,158 | | $101,882 | | |  |
| Gross Profit |  |  | 98,225 | |  |  | 47,414 | |  |  | 71,659 | |  | 68,016 | |  |
| Total operating expenses |  |  | 127,371 |  |  |  | 141,656 |  |  |  | 78,460 | |  | 71,380 | |  |
| Loss from operations |  |  | (29,146) |  |  |  | (94,242) |  |  |  | (6,801) |  |  | (3,364) |  |  |
| Total other expense, net |  |  | (7,915) | |  |  | (4,214) | |  |  | (336) | |  | (194) | |  |
| Loss before income taxes |  |  | (37,061) |  |  |  | (98,456) |  |  |  | (7,137) |  |  | (3,558) |  |  |
| Provision for (benefit from) income taxes |  |  | 84,539 | |  |  | (84,090) | |  |  | 273 | |  | 275 | |  |
| Net loss |  | $ | (121,600 | ) |  | $ | (14,366 | ) |  | $ | (7,410 | ) | $ | (3,833 | ) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net loss per common share, basic and diluted | $ | | (1.82) | | $ | | (0.23) | | $ | | (0.13) | | $ | (0.07) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Total operating expenses for the quarter ended December 31, 2017 included external legal and financial advisory fees of $11.2 million associated with the pending merger with Marvell.
2. The benefit from income taxes for the quarter ended December 31, 2017 included income tax benefits of $11.6 million due to the recently enacted Tax Cuts and Jobs Act which resulted in the reduction of the Company’s net long term deferred tax liabilities recorded on its consolidated balance sheet and additional income tax benefit of $5.2 million due to release of unrecognized tax benefit liability mainly as result of the expiration of the statutes of limitations.
3. Gross profit for the quarter ended March 31, 2017 included charges of $21.4 million associated with the write-down of assets due to rationalization of certain product lines.
4. Gross profit for the quarter ended September 30, 2016 included charges of $37.1 million related to the QLogic manufacturing rights buy-out and write-down of fixed assets.
5. Total operating expenses for the quarter ended September 30, 2016 included stock-based compensation expense related to QLogic employees with change in control provisions of $15.6 million, acquisition and integration costs of $13.4 million and restructuring, severance and other employment charges of $12.0 million related to the QLogic acquisition.

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1. The benefit from income taxes for the quarter ended September 30, 2016 included a tax benefit from the partial release of the valuation allowance on net deferred tax assets. As a result of the QLogic acquisition, during the third quarter of 2016, the Company recognized a net deferred tax liability mainly related to book-tax basis difference on purchased intangible assets. This net deferred tax liability was treated as a source of taxable income to support the realizability of the Company’s pre-existing deferred tax assets. As such, the Company recorded a partial release of the net deferred tax assets valuation allowance of $82.9 million to offset against the deferred tax liability.
2. The provision for income taxes for the quarter ended December 31, 2016 included tax expense due to the reversal of the partial release of the valuation allowance on net deferred tax assets recorded in the quarter ended September 30, 2016 as discussed above. During the fourth quarter of 2016, the Company was able to assess and measure an additional deferred tax asset that existed as of the acquisition date of QLogic. Due to the identification of this additional deferred tax asset, the Company made adjustments in the fourth quarter of 2016 to certain tax balances including the reversal of the partial release of the valuation allowance recorded in the third quarter of 2016.

**Schedule II - Valuation and Qualifying Accounts**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Balance at** | |  |  |  |  | **Balance at** | | |  |
|  | **beginning** | |  |  |  |  |  |
|  |  | **of** | **Additions** | | **Deductions** | |  | **end of** | |  |
|  |  | **period** |  | **period** | |  |
|  |  |  |  | **(in thousands)** | |  |  |  |  |  |
| Year ended December 31, 2017 |  |  |  |  |  |  |  |  |  |  |
| Allowance for doubtful accounts | $ | 24 | $ | 26 | $ | (26) | $ | 24 | |  |
| Allowance for customer returns |  | 4,106 |  | 7,516 |  | (8,490) |  | 3,132 | |  |
| Income tax valuation allowance |  | 315,915 |  | 10,199 |  | — |  | 326,114 | |  |
| Year ended December 31, 2016 |  |  |  |  |  |  |  |  |  |  |
| Allowance for doubtful accounts | $ | 24 | $ | 28 | $ | (28) | $ | 24 | |  |
| Allowance for customer returns |  | 1,444 |  | 7,789 |  | (5,127) |  | 4,106 | |  |
| Income tax valuation allowance |  | 127,328 |  | 188,587 |  | — |  | 315,915 | |  |
| Year ended December 31, 2015 |  |  |  |  |  |  |  |  |  |  |
| Allowance for doubtful accounts | $ | 24 | $ | — | $ | — | $ | 24 | |  |
| Allowance for customer returns |  | 1,118 |  | 4,513 |  | (4,187) |  | 1,444 | |  |
| Income tax valuation allowance |  | 105,638 |  | 21,690 |  | — |  | 127,328 | |  |

All other schedules are omitted because they are inapplicable or the requested information is shown in the consolidated financial statements of the registrant or related notes thereto.

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|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  | **Exhibit 99.2** | |
| **CAVIUM, INC.** |  |  |  |  |  |  |  |  |  |
| **CONDENSED CONSOLIDATED BALANCE SHEETS** |  |  |  |  |  |  |  |  |  |
| **(in thousands, except share and per share data)** |  |  |  |  |  |  |  |  |  |
| **(unaudited)** |  |  |  |  |  |  |  |  |  |
|  |  |  | **As of** | | |  |  | **As of** | |
|  |  | **March 31, 2018** | | | |  | **December 31, 2017** | | |
| **Assets** |  |  |  |  |  |  |  |  |  |
| Current assets: |  |  |  |  |  |  |  |  |  |
| Cash and cash equivalents | $ | | 181,601 | |  | $ | | 140,498 | |
| Accounts receivable, net |  |  | 204,524 | |  |  |  | 230,143 | |
| Inventories |  |  | 102,171 | |  |  |  | 93,674 | |
| Prepaid expenses and other current assets |  |  | 29,121 |  |  |  |  | 22,794 |  |
| Total current assets |  |  | 517,417 | |  |  |  | 487,109 | |
| Property and equipment, net |  |  | 193,742 | |  |  |  | 192,515 | |
| Intangible assets, net |  |  | 633,017 | |  |  |  | 664,769 | |
| Goodwill |  |  | 237,692 | |  |  |  | 237,692 | |
| Other assets |  |  | 7,182 | |  |  |  | 7,240 | |
| Total assets |  | $ | 1,589,050 |  |  |  | $ | 1,589,325 |  |
|  |  |  |  |  |  |  |  |  |  |
| **Liabilities and Stockholders’ equity** |  |  |  |  |  |  |  |  |  |
| Current liabilities: |  |  |  |  |  |  |  |  |  |
| Accounts payable | $ | | 83,952 | |  | $ | | 91,318 | |
| Accrued expenses and other current liabilities |  |  | 42,648 | |  |  |  | 38,753 | |
| Deferred revenue |  |  | 6,751 | |  |  |  | 9,236 | |
| Current portion of long-term debt |  |  | 3,278 | |  |  |  | 3,270 | |
| Capital lease and technology license obligations |  |  | 39,583 | |  |  |  | 31,435 | |
| Total current liabilities |  |  | 176,212 |  |  |  |  | 174,012 |  |
| Long-term debt |  |  | 592,131 | |  |  |  | 592,963 | |
| Capital lease and technology license obligations, net of current portion |  |  | 9,506 | |  |  |  | 15,370 | |
| Deferred tax liability |  |  | 2,751 | |  |  |  | 2,686 | |
| Other non-current liabilities |  |  | 31,141 |  |  |  |  | 25,948 |  |
| Total liabilities |  |  | 811,741 | |  |  |  | 810,979 | |
| Commitments and contingencies (Note 11) |  |  |  |  |  |  |  |  |  |
| Stockholders’ equity |  |  |  |  |  |  |  |  |  |
| Common stock, par value $0.001: |  |  |  |  |  |  |  |  |  |
| 70,022,937 and 69,155,793 shares issued and outstanding, respectively |  |  | 70 | |  |  |  | 69 | |
| Additional paid-in capital |  |  | 1,223,035 | |  |  |  | 1,183,819 | |
| Accumulated deficit |  |  | (446,606) | | |  |  | (406,352) | |
| Accumulated other comprehensive income |  |  | 810 |  |  |  |  | 810 |  |
| Total stockholders’ equity |  |  | 777,309 | |  |  |  | 778,346 | |
| Total liabilities and stockholders’ equity |  | $ | 1,589,050 |  |  |  | $ | 1,589,325 |  |
|  |  |  |  |  |  |  |  |  |  |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**CAVIUM, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(in thousands, except per share data)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended March 31,** | | | | | | |  |
|  |  |  |  | **2018** |  |  |  | **2017** |  |  |
|  | Net revenue |  | $ | 230,761 |  |  | $ | 229,577 |  |  |
|  | Cost of revenue |  |  | 113,080 |  |  |  | 137,454 |  |  |
|  | Gross profit |  |  | 117,681 | |  |  | 92,123 | |  |
| Operating expenses: | |  |  |  |  |  |  |  |  |  |
|  | Research and development |  |  | 110,619 | |  |  | 90,713 | |  |
|  | Sales, general and administrative |  |  | 43,621 |  |  |  | 40,397 |  |  |
|  | Total operating expenses |  |  | 154,240 | |  |  | 131,110 | |  |
|  | Loss from operations |  |  | (36,559) |  |  |  | (38,987) |  |  |
|  | Other expense, net: |  |  |  |  |  |  |  |  |  |
|  | Interest expense |  |  | (6,733) | |  |  | (10,124) | |  |
|  | Other, net |  |  | (66) | |  |  | (133) | |  |
| Total other expense, net | |  |  | (6,799) |  |  |  | (10,257) |  |  |
|  | Loss before income taxes |  |  | (43,358) | |  |  | (49,244) | |  |
|  | Provision for (benefit from) income taxes |  |  | (1,371) | |  |  | 1,279 | |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Net loss | $ | | (41,987) | | $ | | (50,523) | |  |
| Earnings per share: | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  | Net loss per common share, basic | $ | | (0.60) | | $ | | (0.75) | |  |
|  | Shares used in computing basic net loss per common share |  |  | 69,650 | |  |  | 67,640 | |  |
|  | Net loss per common share, diluted | $ | | (0.60) | | $ | | (0.75) | |  |
|  | Shares used in computing diluted net loss per common share |  |  | 69,650 | |  |  | 67,640 | |  |

The accompanying notes are an integral part of these condensed consolidated financial statements.

**CAVIUM, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(in thousands)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended March 31,** | | | | | | |
|  |  |  | **2018** |  |  |  | **2017** |  |
|  | Net loss | $ | (41,987) |  |  | $ | (50,523) |  |
|  | Foreign currency translation adjustments |  | — |  |  |  | 913 |  |
|  | Comprehensive loss | $ | (41,987) | | $ | | (49,610) | |
|  |  |  |  |  |  |  |  |  |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**CAVIUM, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended March 31,** | | | | | | |  |
|  |  |  |  | **2018** |  |  |  | **2017** |  |  |
|  | **Cash flows from operating activities:** |  |  |  |  |  |  |  |  |  |
|  | Net loss | $ | | (41,987) | | $ | | (50,523) | |  |
|  | Adjustments to reconcile net loss to net cash provided by operating activities: |  |  |  |  |  |  |  |  |  |
|  | Stock-based compensation expense |  |  | 28,464 | |  |  | 23,795 | |  |
|  | Depreciation and amortization |  |  | 53,618 | |  |  | 52,237 | |  |
|  | Deferred income taxes |  |  | 86 | |  |  | 531 | |  |
|  | Amortization of deferred debt financing costs |  |  | 706 | |  |  | 3,849 | |  |
|  | Loss on disposal of property and equipment |  |  | 425 | |  |  | 109 | |  |
|  | Changes in assets and liabilities: |  |  |  |  |  |  |  |  |  |
|  | Accounts receivable, net |  |  | 22,487 | |  |  | (10,782) | |  |
|  | Inventories |  |  | (8,469) | |  |  | 19,323 | |  |
|  | Prepaid expenses, other current and non-current assets |  |  | 1,281 | |  |  | (3,332) | |  |
|  | Accounts payable |  |  | 1,889 | |  |  | (1,481) | |  |
|  | Deferred revenue |  |  | (753) | |  |  | (199) | |  |
|  | Accrued expenses, other current and non-current liabilities |  |  | 4,650 | |  |  | (8,412) | |  |
| Net cash provided by operating activities | |  |  | 62,397 |  |  |  | 25,115 |  |  |
|  | **Cash flows from investing activities:** |  |  |  |  |  |  |  |  |  |
|  | Purchases of property and equipment |  |  | (17,695) | |  |  | (18,111) | |  |
|  | Purchases of intangible assets |  |  | (1,466) | |  |  | (3,094) | |  |
| Net cash used in investing activities | |  |  | (19,161) |  |  |  | (21,205) |  |  |
|  | **Cash flows from financing activities:** |  |  |  |  |  |  |  |  |  |
|  | Proceeds from issuance of common stock upon exercise of options |  |  | 11,115 | |  |  | 2,843 | |  |
|  | Payment of taxes withheld on net settled vesting of restricted stock units |  |  | (390) | |  |  | — | |  |
|  | Principal payment of capital lease and technology license obligations |  |  | (11,327) | |  |  | (9,783) | |  |
|  | Principal payments of long-term debt |  |  | (1,531) | |  |  | (86,000) | |  |
| Net cash used in financing activities | |  |  | (2,133) |  |  |  | (92,940) |  |  |
|  | Net increase (decrease) in cash and cash equivalents |  |  | 41,103 | |  |  | (89,030) | |  |
|  | Cash and cash equivalents, beginning of period |  |  | 140,498 |  |  |  | 221,439 |  |  |
|  | Cash and cash equivalents, end of period | $ | | 181,601 | | $ | | 132,409 | |  |
| **Supplemental disclosure of cash flows from investing activities:** | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  | Additions to property and equipment and intangible assets included in accounts payable | $ | | 5,683 | | $ | | 10,776 | |  |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**CAVIUM, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**1. Organization and Basis of Presentation**

***Organization***

Cavium, Inc. (the “Company”) was incorporated in the state of California on November 21, 2000 and was reincorporated in the state of Delaware effective February 6, 2007. The Company designs, develops and markets semiconductor processors for intelligent and secure networks.

***Pending Acquisition by Marvell***

On November 19, 2017, the Company entered into an Agreement and Plan of Merger with Marvell Technology Group Ltd., a Bermuda exempted company (“Marvell” or “Parent”) and Kauai Acquisition Corp., a Delaware corporation and an indirect wholly owned subsidiary of Parent (“Merger Sub”) (the “Marvell Merger Agreement”). Pursuant to the Marvell Merger Agreement, Merger Sub will be merged with and into the Company (the “Merger”), with the Company continuing as an indirect wholly owned subsidiary of Parent. Subject to the terms and conditions set forth in the Marvell Merger Agreement, at the effective time of the Merger, each share of common stock of the Company (“Company Share”) issued and outstanding immediately prior to the effective time of the Merger (other than (i) Company Shares held by the Company (or held in the Company’s treasury) or held by Parent, Merger Sub or any other subsidiary of Parent, (ii) Company Shares held, directly or indirectly, by any subsidiary of the Company, or (iii) Company Shares with respect to which appraisal rights are properly exercised and not withdrawn under Delaware law) will be converted into the right to receive 2.1757 common shares, $0.002 par value per share, of Parent (each, a “Parent Share”) and $40.00 in cash, without interest (the “Merger Consideration”).

In general, as a result of the Merger, at the effective time of the Merger, (i) each stock option, then outstanding, whether vested or unvested, shall be assumed by Parent and converted into an option to purchase, on the same terms and conditions as were applicable under such company stock option, Parent Shares at a conversion ratio as set forth in the Marvell Merger Agreement; (ii) unvested restricted stock units will be assumed and converted into Marvell restricted stock units at a conversion ratio as set forth in the Marvell Merger Agreement; (iii) vested restricted stock units (including restricted stock units that will vest just prior to or as of the effective time of the Merger) will receive the Merger Consideration based on the number of shares of our common stock underlying the restricted stock unit; and (iv) unvested performance-based restricted stock units will be assumed by Marvell and converted into Marvell restricted stock units (based on target level of performance achieved as of the last trading day prior to the closing of the Merger and the conversion ratio as set forth in the Marvell Merger Agreement).

The Marvell Merger Agreement contains representations, warranties and covenants of the parties customary for a transaction of this type. The consummation of the Merger is subject to customary closing conditions, including, among other things, approval by the Company’s shareholders, approval by Parent’s shareholders of the issuance of Parent Shares in connection with the Merger (the “Parent Share Issuance”), and the receipt of certain regulatory clearances, including the required clearances from the Committee on Foreign Investment in the United States (“CFIUS”), the Ministry of Commerce of the People’s Republic of China (“MOFCOM”), and the Office for Competition and Consumer Protection of Poland (“OCCP”). On March 19, 2018, the Company’s shareholders approved the adoption of the Marvell Merger Agreement.

The Marvell Merger Agreement provides Parent and us with certain termination rights, and under certain circumstances, may require Parent or the Company to pay a termination fee. The Marvell Merger Agreement provides that in certain circumstances, the Company’s board of directors have the right to terminate the Marvell Merger Agreement in order to enter into a definitive agreement relating to a superior offer. In that event, the Marvell Merger Agreement requires the Company to pay a termination fee of $180.0 million. The Marvell Merger Agreement provides that, in certain circumstances, the Marvell board of directors have the right to terminate the Merger Agreement in order to enter into a definitive agreement relating to a superior offer. In that event, the Marvell Merger Agreement provides that Marvell pay the Company a termination fee of $180.0 million. In addition, the Merger Agreement provides that Marvell will be required to pay the Company a termination fee of $50.0 million if,

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under certain specified circumstances, MOFCOM approval has not been obtained and the Marvell Merger Agreement is terminated. The Marvell Merger Agreement also provides that Marvell will be required to pay the Company a termination fee of $180.0 million if, under certain specified circumstances, CFIUS Approval has not been obtained and the Merger Agreement is terminated. The transaction is expected to close in mid-calendar year 2018.

The Company recorded acquisition-related costs of approximately $0.7 million for the three months ended March 31, 2018 and cumulatively $11.9 million as of March 31, 2018, primarily for outside legal and external financial advisory fees associated with the pending acquisition by Marvell. These costs were recorded in sales, general and administrative expenses in the Company’s condensed consolidated statements of operations in the respective reporting periods. Additional acquisition-related costs are expected to be incurred through the closing of the Merger.

***Basis of Presentation***

The condensed consolidated financial statements include the accounts of Cavium, Inc. and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

The condensed consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America, or US GAAP, and pursuant to the rules and regulations of the Securities and Exchange Commission, or SEC. Accordingly, they do not include all of the information and footnotes required by US GAAP for annual financial statements. For further information, these financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K (File No. 001-33435) for the year ended December 31, 2017 filed with the SEC on March 1, 2018.

The condensed consolidated financial statements contain all normal recurring adjustments that, in the opinion of management, are necessary to state fairly the Company’s condensed consolidated financial position as of March 31, 2018, and the condensed consolidated results of its operations for the three months ended Mach 31, 2018 and 2017, and condensed consolidated statements of cash flows for the three months ended March 31, 2018 and 2017. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for the full year.

The condensed consolidated balance sheet as of December 31, 2017 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by US GAAP.

***Significant Accounting Policies***

The Company’s significant accounting policies are disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. There had been no changes to these accounting policies except for the recently adopted accounting guidance discussed below.

***Adoption of New Revenue Recognition Standard***

The Financial Accounting Standards Board, or FASB, issued accounting standard updates that create a single source of revenue guidance under US GAAP (ASC Topic 606) for all companies, in all industries, effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Under the new standard, an entity is required to recognize revenue upon transfer of promised goods or services to customers in an amount that reflects the expected consideration received in exchange for goods and services. The FASB also issued additional guidance that defines a five-step process in order to achieve this core principle, which may require the use of judgment and estimates, and also requires expanded qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and estimates used. The FASB has recently issued several amendments to the new standard, including clarification on identifying performance obligations. The amendments include new guidance on Revenue from Contracts with Customers-Principal versus Agent Considerations, which clarifies the implementation guidance for principal versus agent considerations. The new standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. This new guidance supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the Codification.

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Effective January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606. Prior period amounts are not adjusted and continue to be reported in accordance with its historic accounting under Topic 605. The sale of semiconductor products accounts for the substantial majority of the Company’s consolidated revenue and recognition for such product sales has remained the same under Topic 606 as that under Topic 605. The Company also derives revenue from licensing software, which was accounted for under software industry specific revenue guidance and primarily contributed to the adjustment to the opening balance of accumulated deficit. Certain license revenue that was historically recognized ratably over time is recognized upfront under Topic 606. The Company recognized the cumulative effect of initially adopting Topic 606 as an adjustment to the opening balance of accumulated deficit as of January 1, 2018. The Company recorded a net reduction to the opening accumulated deficit of $1.7 million as of January 1, 2018. Additionally, the sales returns reserve was historically presented as a contra-asset within accounts receivables on the Company’s consolidated balance sheets. Upon the adoption of Topic 606, the Company presents the sales returns reserve as a liability. Historically, the balance of the sales returns reserve for the periods presented was not material to the overall consolidated balance sheets.

The Company’s contracts do not include a significant financing component. The primary purpose of the Company’s invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive or provide financing. Contract liabilities are primarily related to extended warranty and software post-contract customer support. Advance payments are received at the beginning of warranty or support period, and contract liabilities are reclassified to revenue ratably over the warranty or support period. The balance of contract liabilities approximates the aggregate amount of the transaction price allocated to the unsatisfied performance obligations at the end of reporting period. In the three months ended March 31, 2018, the Company did not recognize any material revenue adjustment related to performance obligations satisfied in prior periods as a result of changes in estimated variable consideration. The Company has elected to apply the optional exemption and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are part of a contract with an expected duration of less than 12 months. Because the majority of the Company’s performance obligations in its contracts with customers relate to contracts with a duration of less than one year, transaction price allocated to unsatisfied performance obligations included in contracts with duration of more than 12 months was not material.

The Company has elected to apply the practical expedient to expense commission costs as incurred for costs to obtain a contract when the amortization period would have been one year or less. As a result, no commission costs are capitalized.

***Revenue Recognition Policy effective January 1, 2018***

The Company recognizes revenue when control of its goods and services is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for its services. Sales taxes are excluded from revenue. The Company determines revenue recognition through the following steps:

* Identification of the contract, or contracts, with a customer
* Identification of the performance obligations in the contract
* Determination of the transaction price
* Allocation of the transaction price to the performance obligations in the contract
* Recognition of revenue when, or as, the Company satisfies a performance obligation

Revenue for semiconductor products is recognized when the control is transferred to the customer, which is typically upon shipment to customers. The Company accounts for the right of returns, rebates and other pricing adjustments as variable consideration and uses the portfolio approach to estimate these amounts based on the expected amount to be provided to customers and reduce the revenue recognized. The Company estimates sales returns and rebates based on the Company’s historical patterns of return and pricing credits.

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Software arrangements typically include time-based open-source and proprietary software licenses for 12 months with related support. For proprietary software licenses that constitute functional intellectual properties, revenue will be recognized at the later of when (i) the license term starts and (ii) the software is made available to customers. The revenues from fixed-price support or maintenance performance obligations, including extended warranty and software post-contract customer support, are recognized ratably over the support period consistently with the stand-ready nature of these performance obligations. For fixed-fee professional services arrangements, revenue is recognized over time based on hour-to-hour measure, which best depicts our performance toward complete satisfaction of the performance obligation based on the nature of such professional services.

The Company’s contracts with customers may include multiple performance obligations. For such arrangements, the Company allocates revenue to each performance obligation based on its relative standalone selling price. The Company generally determines standalone selling prices based on the prices charged to customers except for subscription to its open-source software products, proprietary software development kits bundled with such subscriptions and certain post-contract customer support due to lack or insufficient number of standalone sales of such products. In such cases, the Company determines its standalone selling prices based on the target pricing, by reference to industry practice for pricing similar products or based on cost plus a reasonable margin approach.

***Other Recently Adopted Accounting Standards***

In May 2017, the FASB issued an update to the guidance on stock-based compensation which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. Under this updated standard, an entity will not apply modification accounting to a share-based payment award if the award’s fair value, vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, and will be applied prospectively to awards modified on or after the adoption date. The Company adopted this standard effective on January 1, 2018. The Company did not have stock-based compensation accounted for as modifications during the period that requires to be accounted under the updated guidance.

In November 2016, the FASB issued an update to the guidance on statement of cash flows—restricted cash presentation. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period, but any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The new standard must be adopted retrospectively. The Company adopted this standard effective on January 1, 2018. The Company does not have restricted cash in the periods presented.

In October 2016, the FASB issued an update to the guidance on income taxes. This new guidance requires an entity to recognize the income tax consequences

of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. This new guidance is effective for fiscal years beginning after

December 15, 2017, and interim periods within those fiscal years. The Company adopted this standard effective on January 1, 2018 and it did not result in any

material impact on its consolidated financial statements.

In August 2016, the FASB issued new guidance on cash flow classification of certain cash receipts and cash payments. This new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods during the annual period and require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. The Company adopted this standard effective on January 1, 2018. The Company did not have cash receipts and cash payments during the reporting period that requires to be accounted under the updated guidance.

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***Update to Recently Issued Accounting Standards Not Yet Effective***

In January 2017, the FASB issued an update to the guidance to simplify the measurement of goodwill by eliminating the Step 2 impairment test. The update is effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, though early adoption is permitted. The Company is currently assessing the impact of this new guidance but does not expect it to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued updated guidance on leases which requires a lessee to recognize the assets and lease liabilities on the balance sheet for certain leases classified as operating leases under previous GAAP. In September 2017, the FASB provided additional clarification and implementation guidance on leases. This updated guidance is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. Although the Company is currently evaluating the impact this new guidance will have on its consolidated financial statements and related disclosures, the Company expects that most of its operating lease commitments will be subject to the new standard and will be recognized as operating lease liabilities and right-of-use assets upon adoption.

In January 2016, the FASB issued updated guidance on Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this updated guidance are effective for annual and interim periods beginning after December 15, 2017. The Company will adopt this standard effective on January 1, 2018 and does not expect it to have a material impact on its consolidated financial statements.

**2. Business Combination**

***QLogic Corporation***

On August 16, 2016, pursuant to the terms of an Agreement and Plan of Merger dated June 15, 2016, by and among the Company, Quasar Acquisition Corp. (a wholly owned subsidiary of the Company) and QLogic (the “QLogic Merger Agreement”), the Company acquired all outstanding shares of common stock of QLogic (the “QLogic shares”) pursuant to an exchange offer for a total acquisition consideration of $1,379.5 million consisting of $938.9 million in cash and $440.6 million in equity, followed by a merger.

The Company allocated the acquisition consideration to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The final purchase price allocation was as follows (in thousands):

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Cash and cash equivalents | $ | | 365,065 |  |  |
|  | Marketable securities |  |  | 375 |  |  |
|  | Accounts receivable |  |  | 65,576 |  |  |
|  | Inventories |  |  | 63,300 |  |  |
|  | Prepaid expense and other current assets |  |  | 11,395 |  |  |
|  | Property and equipment |  |  | 81,890 |  |  |
|  | Intangible assets |  |  | 721,700 |  |  |
|  | Other assets |  |  | 1,559 |  |  |
|  | Goodwill |  |  | 166,214 |  |  |
|  | Accounts payable |  |  | (41,776) | |  |
|  | Accrued expense and other current liabilities |  |  | (21,884) | |  |
|  | Deferred revenue |  |  | (603) | |  |
|  | Deferred tax liability |  |  | (17,237) | |  |
|  | Other non-current liabilities |  |  | (16,081) | |  |
|  |  |  |  |  |  |  |
| Total acquisition consideration | $ | | 1,379,493 |  |  |
|  |  | 8 |  |  |  |  |
|  |  |  |  |  |  |

The valuation of identifiable intangible assets and their estimated useful lives are as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Weighted** | |  |
|  |  |  | **Estimated Asset** | **Average** | |  |
|  |  |  | **Useful Life** | |  |
|  |  |  | **Fair Value** | **(Years)** | |  |
|  |  |  | **(in thousands, except for useful life)** | |  |  |
| Existing and core technology | $ | | 578,400 | 6 |  |  |
| In-process research and development (IPRD) |  |  | 78,900 | n/a | |  |
| Customer relationships |  |  | 51,100 | 10 |  |  |
| Tradename and trademark |  |  | 13,300 | 5 |  |  |
|  | $ | | 721,700 |  |  |  |
|  |  |  |  |  |  |  |

The IPRD consists of two projects relating to the development of process technologies to manufacture next generation Fibre Channel and Ethernet products.

The IPRD are accounted for as an indefinite-lived intangible asset until the underlying projects are completed or abandoned. The IPRD will not be amortized

until the completion of the related products which is determined by when the underlying projects reached technological feasibility. Upon completion, the

IPRD will be amortized over its estimated useful life; useful lives for IPRD are expected to range between 5 to 6 years. During the second quarter of 2017, the

underlying project related to Ethernet had achieved production status and concurrently was introduced to the market. As such, the Company reclassified

$18.6 million of the IPRD associated with the Ethernet project to existing and core technology and it is being amortized over the estimated useful life of the

asset. The Fibre Channel project is expected to be completed in fiscal year 2019.

**3. Net Loss Per Common Share**

The following outstanding options and restricted stock units were excluded from the computation of diluted net loss per common share for the periods presented because including them would have had an anti-dilutive effect:

**Three Months Ended**

**March 31,**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2018** | **2017** |  |
|  | **(in thousands)** | |  |
| Options to purchase common stock | 841 | 1,232 |  |
| Restricted stock units | 4,231 | 4,367 |  |

**4. Fair Value Measurements**

As of March 31, 2018 and December 31, 2017, the Company’s cash equivalents were comprised of an investment in a money market fund. In accordance with the guidance for fair value measurements and disclosures, the Company determined the fair value hierarchy of its money market fund as Level 1, which approximated $39.4 million and $39.7 million as of March 31, 2018 and December 31, 2017, respectively. The carrying amount of the Company’s accounts receivable, accounts payable and accrued expenses and other current liabilities approximate fair value due to their short-term maturities.

There are no other financial assets and liabilities, except those disclosed in Note 10 of Notes to Condensed Consolidated Financial Statements that require Level 2 or Level 3 fair value hierarchy measurements and disclosures.

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**5. Balance Sheet Components**

***Inventories***

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **As of** | |  |  | **As of** | | |  |
|  |  |  |  | **March 31,** | |  | **December 31,** | | | |  |
|  |  | **2018** | | |  |  |  | **2017** |  |  |  |
|  |  |  |  |  | **(in thousands)** | | | | |  |  |
|  | Work-in-process | $ 57,141 | | | | $ | | 54,835 | |  |  |
|  | Finished goods |  | | 45,030 | |  |  | 38,839 | |  |  |
|  |  | $102,171 | | | | $ | | 93,674 | |  |  |
| ***Property and equipment, net*** | |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  | **As of** | |  |  | **As of** | | |  |
|  |  |  | **March 31,** | | | **December 31,** | | | | |  |
|  |  | **2018** | | |  |  |  | **2017** |  |  |  |
|  |  |  |  | **(in thousands)** | | | |  |  |  |  |
|  | Test equipment and mask costs | $ 184,344 | | |  | $ | | 174,710 |  |  |  |
|  | Software, design tools, computer and other equipment | 109,114 | | |  |  |  | 114,322 |  |  |  |
|  | Furniture, office equipment and leasehold improvements | 50,703 | | |  |  |  | 50,754 |  |  |  |
|  | Construction in progress |  | 20,029 | |  |  |  | 20,368 |  |  |  |
|  |  | 364,190 | | |  |  |  | 360,154 |  |  |  |
|  | Less: accumulated depreciation and amortization |  | (170,448) | | |  |  | (167,639) | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | $ 193,742 | | |  | $ | | 192,515 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

Depreciation and amortization expense was $21.0 million and $20.8 million for the three months ended March 31, 2018 and 2017, respectively.

The Company leases certain design tools under financing arrangements which are included in property and equipment, which total cost, net of accumulated amortization amounted to $50.6 million and $43.7 million as of March 31, 2018 and December 31, 2017, respectively. Amortization expense related to assets recorded under capital lease and certain financing arrangements was $6.3 million and $4.3 million for the three months ended March 31, 2018 and 2017, respectively.

***Assets written-down***

The Company decided to rationalize certain product lines in March 2017. As a result, the Company wrote-down certain assets during the three months ended March 31, 2017 totaling $21.5 million which was recorded in the condensed consolidated statements of operations within cost of revenue of $20.5 million, research and development expense of $0.4 million and sales, general and administrative expense of $0.6 million. The assets written-down included inventories of $16.4 million, property and equipment of $4.5 million, and intangibles and other assets of $0.6 million.

***Accrued expenses and other current liabilities***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **As of** |  |  | **As of** | |  |
|  | **March 31,** | | **December 31,** | | | |  |
|  | **2018** | |  |  | **2017** |  |  |
|  |  | **(in thousands)** | | | |  |  |
| Accrued compensation and related benefits | $ 23,086 | | $ | | 18,576 |  |  |
| Other |  | 19,562 |  |  | 20,177 |  |  |
|  | $ 42,648 | | $ | | 38,753 |  |  |
|  | 10 |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

***Other non-current liabilities***

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **As of** |  |  | **As of** | |
|  | **March 31,** | | **December 31,** | | | |
|  | **2018** | |  |  | **2017** |  |
|  |  | **(in thousands)** | | | |  |
| Accrued rent | $ 21,393 | | $ | | 12,813 |  |
| Other |  | 9,748 |  |  | 13,135 |  |
|  | $ 31,141 | | $ | | 25,948 |  |
|  |  |  |  |  |  |  |

**6. Intangible Assets, Net**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **As of March 31, 2018** | | |  |  |  | **Weighted** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  | **average** | |  |
|  |  |  |  |  |  |  |  |  |  |  | **remaining** | |  |
|  |  |  |  |  |  | **Accumulated** | |  |  |  | **amortization** | |  |
|  |  |  | **Gross** | |  |  | **Net** | | **period** | |  |
|  |  |  |  | **Amortization** | |  | **(years)** | |  |
|  |  |  |  |  |  | **(in thousands)** | |  |  |  |  |  |  |
|  | Existing and core technology—product | $638,738 | | | $ (201,025) | | | $437,713 | | | 4.42 | |  |
|  | Technology licenses | 159,534 | | | (76,281) | | | 83,253 | | | 3.98 | |  |
|  | Customer contracts and relationships | 53,288 | | | (10,514) | | | 42,774 | | | 8.37 | |  |
|  | Trade name |  | 15,596 | | (6,619) | | | 8,977 | | | 3.38 | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total amortizable intangible assets | $867,156 | | | $ (294,439) | | | $572,717 | | | 4.19 | |  |
|  | IPRD |  | 60,300 | |  | — | | 60,300 | | |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total intangible assets | $927,456 | | | $ (294,439) | | | $633,017 | | |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | **As of December 31, 2017** | | |  |  |  | **Weighted** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  | **average** | |  |
|  |  |  |  |  |  |  |  |  |  |  | **remaining** | |  |
|  |  |  |  |  |  | **Accumulated** | |  |  |  | **amortization** | |  |
|  |  |  | **Gross** | |  |  | **Net** | | **period** | |  |
|  |  |  |  | **Amortization** | |  | **(years)** | |  |
|  |  |  |  |  |  | **(in thousands)** | |  |  |  |  |  |  |
|  | Existing and core technology—product | $638,738 | | | $ (176,199) | | | $462,539 | | | 4.67 | |  |
|  | Technology licenses | 158,997 | | | (70,759) | | | 88,238 | | | 4.11 | |  |
|  | Customer contracts and relationships | 53,288 | | | (9,238) | | | 44,050 | | | 8.62 | |  |
|  | Trade name |  | 15,596 | | (5,954) | | | 9,642 | | | 3.63 | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total amortizable intangible assets | $866,619 | | | $ (262,150) | | | $604,469 | | | 4.42 | |  |
|  | IPRD |  | 60,300 | |  | — | | 60,300 | | |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total intangible assets | $926,919 | | | $ (262,150) | | | $664,769 | | |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Amortization expense was $32.7 million and $31.4 million for the three months ended March 31, 2018 and 2017, respectively. 11

The following table presents the estimated future amortization expense of amortizable intangible assets as of March 31, 2018 (in thousands):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Remainder of 2018 | $ | | 99,443 |  |
| 2019 |  |  | 130,315 |  |
| 2020 |  |  | 125,827 |  |
| 2021 |  |  | 117,536 |  |
| 2022 |  |  | 80,336 |  |
| 2023 and thereafter |  |  | 19,260 |  |
|  | $ | | 572,717 |  |
|  |  |  |  |  |

**7. Stockholders’ Equity**

***Equity Incentive Plans***

The following table summarizes the stock option activity for the three months ended March 31, 2018:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Weighted Average** | | |  |
|  |  | **Number of Options** | | |  | **Exercise Price** | |  |
|  |  |  | **Per** | |  |
|  |  |  | **Outstanding** | |  | **Share** | |  |
|  | Balance as of December 31, 2017 |  | 1,130,016 |  |  | 44.65 |  |  |
|  | Options granted | 1,175 | |  | 89.80 | |  |  |
|  | Options exercised | (290,593) | | | 38.25 | |  |  |
|  | Options cancelled and forfeited |  | — |  |  | — | |  |
|  | Balance as of March 31, 2018 | 840,598 | |  | 46.93 | |  |  |
|  |  |  |  |  |  |  |  |  |

Stock options granted during the quarter ended March 31, 2018 was not material. As of March 31, 2018, there was $4.7 million of unrecognized compensation cost related to stock options granted. The unrecognized compensation cost is expected to be recognized over a weighted average period of 2.31 years.

The following table summarizes the restricted stock unit award, or RSU, activity for the three months ended March 31, 2018:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Weighted-** | |  |
|  |  |  |  |  | **Average** | |  |
|  |  | **Number of** | | **Grant Date Fair** | | |  |
|  |  |  | **Value Per** | |  |
|  |  | **Shares** | |  | **Share** | |  |
|  | Balance as of December 31, 2017 | 3,622,824 |  |  | 58.35 |  |  |
|  | Granted | 1,282,753 |  | 89.71 | |  |  |
|  | Vested | (580,950) | | 56.00 | |  |  |
|  | Cancelled and forfeited | (93,590) | | 64.85 | |  |  |
|  | Balance as of March 31, 2018 | 4,231,037 |  | 68.04 | |  |  |
|  |  |  |  |  |  |  |  |

In January 2018, the Company granted two-year performance based RSUs with grant date fair value of $4.6 million. The Company recorded the related stock-based compensation expense based on its evaluation of the probability of achieving the milestones of all of the outstanding performance-based RSUs at each reporting period.

The Company also granted three-year vesting market-based RSU in January 2018 with grant date fair value of $1.6 million. This market-based RSU will vest if: (i) during the performance period, the Company’s total stockholder return is equal to or greater than that of the industry index set by the Compensation Committee of the Board of Directors; and (ii) the recipient remains in continuous service with the Company through such vesting period. The fair value of the market-based RSU was determined by management using the Monte Carlo simulation method which took into account multiple input variables that determine the probability of satisfying the market conditions stipulated in the award.

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As of March 31, 2018, there was $256.0 million of unrecognized compensation costs related to RSUs. The unrecognized compensation cost is expected to be recognized over a weighted average period of 2.58 years.

***Stock-Based Compensation***

The following table presents the detail of stock-based compensation expense amounts included in the condensed consolidated statements of operations for each of the periods presented:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended March 31,** | | | | |
|  |  |  | **2018** |  |  | **2017** |  |
|  |  |  | **(in thousands)** | | |  |  |
| Cost of revenue | $ | | 836 | $ | | 681 |  |
| Research and development |  |  | 18,508 |  |  | 15,066 |  |
| Sales, general and administrative |  |  | 9,120 |  |  | 8,048 |  |
|  |  | $ | 28,464 |  | $ | 23,795 |  |
|  |  |  |  |  |  |  |  |

The total stock-based compensation cost capitalized as part of inventory as of March 31, 2018 and December 31, 2017 was not material.

**8. Income Taxes**

The quarterly provision for (benefit from) income taxes is based on applying the estimated annual effective tax rate to the year to date pre-tax income (loss), plus any discrete items. The Company updates its estimate of its annual effective tax rate at the end of each quarterly period. The estimate takes into account annual forecasted income (loss) before income taxes, the geographic mix of income (loss) before income taxes and any significant permanent tax items.

The following table presents the provision for or benefit from income taxes and the effective tax rates for the three months ended March 31, 2018 and 2017:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended March 31,** | | | |
|  |  | **2018** |  | **2017** |  |
|  |  | **(in thousands)** | |  |  |
| Loss before income taxes | $ (43,358) | | $ | (49,244) | |
| Provision for (benefit from) income taxes | (1,371) | |  | 1,279 |  |
| Effective tax rate | 3.2% | |  | (2.6)% | |

The benefit from income taxes for the three months ended March 31, 2018 was mainly due to a partial release of unrecognized tax benefit liability resulting from a settlement of a tax audit. This tax benefit was partially offset by the provision for income taxes on earnings in foreign jurisdictions. The provision for income taxes for the three months ended March 31, 2017 was primarily related to tax on earnings in foreign jurisdictions. The difference between the provision for income taxes that would be derived by applying the statutory rate to our loss before income taxes and the benefit for income taxes recorded in three months ended March 31, 2018 was primarily attributable to the release of unrecognized tax benefit as a result of a settlement of a tax audit and the difference in foreign tax rates. The difference between the provision for income taxes that would be derived by applying the statutory rate to our loss before income taxes and the provision for income taxes recorded in the three months ended March 31, 2017 was primarily attributable to the difference in foreign tax rates and change in deferred tax liability related to the indefinite lived intangible assets.

The Company’s net deferred tax assets relate predominantly to its United States tax jurisdiction. A full valuation allowance against the Company’s federal and state net deferred tax assets has been in place since 2012. The Company periodically evaluates the realizability of its net deferred tax assets based on all available evidence, both positive and negative. The realization of net deferred tax assets is dependent on the Company’s ability to generate sufficient future taxable income during periods prior to the expiration of tax attributes to fully utilize these assets. The Company weighed both positive and negative evidence and determined that there is a continued need for a valuation allowance on its federal and state deferred tax assets as of March 31, 2018.

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On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act (the “Act”), which significantly changes the existing U.S. tax laws. Major reforms in the legislation include reduction in the corporate tax rate and a move from a worldwide tax system to a territorial system. As a result of the enactment of the legislation, the Company recognized a tax benefit of $11.6 million in its consolidated statement of operations in the fourth quarter of 2017 primarily due to reduction of its net long-term deferred tax liabilities recorded on the Company’s consolidated balance sheet. The enactment of the Act provides a one-time deemed repatriation tax, or “transition tax” on undistributed foreign earnings which required the Company to reclassify its deferred tax liabilities related to undistributed foreign earnings to income tax payable. The one-time transition tax is based on the Company’s total post-1986 earnings and profits, or “E&P”. The Company recorded a provisional amount for the transition tax resulting in a reduction of net operating loss carryforwards. However, given the net operating losses and the full valuation allowance on the Company’s net deferred income tax assets in the U.S., the Company will have no cash tax impact in the U.S. The Company has not finalized its calculation of the E&P for these foreign subsidiaries. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when the Company finalizes the calculation of E&P previously deferred from U.S. federal taxation and finalizes the amounts held in cash or other specified assets. Under the provisions of the Act, all foreign earnings are subject to U.S. taxation. As a result, the Company intends to repatriate substantially all foreign earnings that have been taxed in the U.S. to the extent that the foreign earnings are not restricted by local laws or accounting rules, and there are no substantial incremental costs associated with repatriating the foreign earnings. The Company continues to maintain its indefinite reinvestment policy with respect to immaterial earnings from certain subsidiaries and the associated tax cost is insignificant.

The changes included in the Act are broad and complex. The final transition impacts of the Act may differ from the above estimate, possibly materially, due to, among other things, changes in interpretations of the Act, any legislative action to address questions that arise because of the Act, any changes in accounting standards for income taxes or related interpretations in response to the Act, or any updates or changes to estimates that the Company has utilized to calculate the transition impacts, including impacts from changes to current year earnings estimates, cumulative unrepatriated foreign earnings and foreign exchange rates of foreign subsidiaries. The SEC has issued guidance that would allow for a measurement period of up to one year after the enactment date of the Act to finalize the recording of the related tax impacts. Any adjustments to these provisional amounts will be reported as a component of income tax expense or benefit in the reporting period in which any such adjustments are determined, which will be no later than the fourth quarter of 2018. The Company has not made any additional measurement-period adjustments related to these items during the quarter. However, the Company is continuing to gather additional information to complete its accounting for these items and expects to complete its accounting within the prescribed measurement period.

Because of the complexity of the new Global Intangible Low Tax Income (“GILTI”) rules, the Company is continuing to evaluate this provision of the Act. Under U.S. GAAP, the Company can make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the “period cost method”) or (2) factoring such amounts into the Company’s measurement of its deferred taxes (the “deferred method”). The Company has not recorded any potential deferred tax effects related to GILTI in its consolidated financial statements and has not made a policy decision regarding whether to record deferred taxes on GILTI or use the period cost method. However, the Company included the estimated 2018 current GILTI impact in its annual effective tax rate estimate for 2018.

**9. Segment and Geographic Information**

The Company manages and operates as one reportable segment. The Company categorizes its net revenue in the following different markets:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended March 31,** | | | | |  |
|  |  |  | **2018** |  |  | **2017** |  |  |
|  |  |  | **(in thousands)** | | |  |  |  |
| Enterprise, service provider, broadband and consumer markets | $ | | 181,809 | $ | | 177,888 |  |  |
| Datacenter market |  |  | 48,952 |  |  | 51,689 |  |  |
|  | $ | | 230,761 | $ | | 229,577 |  |  |
| 14 |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

Revenues by geographic area are presented based upon the ship-to location of the original equipment manufacturers, the contract manufacturers or the distributors who purchased the Company’s products. For sales to the distributors, their geographic location may be different from the geographic locations of the ultimate end customers.

Net revenues by geographic area are as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Three Months Ended March 31,** | | | | |
|  |  |  |  | **2018** |  |  | **2017** |  |
|  |  |  |  | **(in thousands)** | | |  |  |
|  | United States | $ | | 55,734 | $ | | 65,907 |  |
|  | China |  |  | 49,050 |  |  | 50,890 |  |
|  | Korea |  |  | 36,244 |  |  | 20,696 |  |
|  | Other countries |  |  | 89,733 |  |  | 92,084 |  |
|  | Total | $ | | 230,761 | $ | | 229,577 |  |
|  |  |  |  |  |  |  |  |  |

The following table sets forth tangible long-lived assets, which consist of property and equipment, net by geographic regions:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **As of** |  |  | **As of** | |
|  |  | **March 31, 2018** | | | **December 31, 2017** | | | |
|  |  |  |  |  | **(in thousands)** | |  |  |
|  | United States | $ | | 165,392 | $ | | 161,249 |  |
|  | All other countries |  |  | 28,350 |  |  | 31,266 |  |
|  | Total | $ | | 193,742 | $ | | 192,515 |  |
|  |  |  |  |  |  |  |  |  |

**10. Debt**

On August 16, 2016, in connection with the acquisition of QLogic, the Company incurred substantial indebtedness pursuant to a Credit Agreement. The Credit Agreement provides for a $700.0 million Initial Term B Loan Facility which will mature on August 16, 2022 and requires quarterly principal payments commencing on December 31, 2016 equal to 0.25% of the aggregate original principal amount, with the balance payable at maturity (in each case subject to adjustment for prepayments). In January 2017, the Company made prepayments of $86.0 million towards the outstanding principal balance of the Initial Term B Loan Facility and recorded additional amortization of the debt financing costs of $2.5 million associated with these principal payments in the first quarter of 2017.

The interest rates applicable to loans outstanding under the original Credit Agreement with respect to the Initial Term B Loan Facility are, at the Company’s option, equal to either a base rate plus a margin of 2.00% per annum or LIBOR plus a margin of 3.00% per annum. In no event shall the LIBOR for any interest period be less than 0.75% with respect to the Initial Term B Loan Facility. On March 20, 2017, the Company entered into an amendment to its Credit Agreement. The amendment provides for, among other things, a reduction of the interest rate margin by 0.75% per annum, substantially all of which was treated as a debt modification. As such, the Company wrote-off an immaterial amount of the deferred financing costs associated with the extinguished portion of the debt in the first quarter of 2017 and continues to amortize the remaining unamortized deferred financing costs over the remaining term of the Initial Term B Loan Facility.

As of March 31, 2018 and December 31, 2017, the carrying value of the Term Facility approximates the fair value basis. The Company classified the Term Loan B Facility under Level 2 of the fair value measurement hierarchy as the borrowings are not actively traded and have variable interest structure based upon market rates currently available to the Company for debt with similar terms and maturities. The following table summarizes the outstanding borrowings from the Initial Term B Loan Facility as of the periods presented:

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|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **As of** | |  |  | **As of** | |  |
|  |  |  |  | **December 31,** | | | |  |
|  |  | **March 31, 2018** | | | |  |  | **2017** |  |  |
|  |  |  |  | **(in thousands)** | | | |  |  |  |
|  | Principal outstanding | $ | | 607,658 |  | $ | | 609,189 |  |  |
|  | Unamortized deferred financing costs |  |  | (12,249) | |  |  | (12,956) | |  |
|  | Principal outstanding, net of unamortized deferred financing |  |  |  |  |  |  |  |  |  |
|  | costs | $ | | 595,409 |  | $ | | 596,233 |  |  |
| Current portion of long-term debt | |  |  |  |  |  |  |  |  |  |
|  | $ | 3,278 |  |  | $ | 3,270 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | Long-term debt | $ | | 592,131 |  | $ | | 592,963 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |



For the three months ended March 31, 2018 and 2017, the Company recognized contractual interest expense on debt of $5.9 million and $5.9 million, respectively, and amortization of deferred financing costs of $0.7 million and $3.8 million, respectively. Unamortized deferred financing costs was recorded as a reduction to principal outstanding in the condensed consolidated balance sheets and is being amortized over the term of the Term Facility.

The Credit Agreement contains customary representations and warranties and affirmative and negative covenants that, among other things, restrict the ability of the Company and its subsidiaries to create or incur certain liens, incur or guarantee additional indebtedness, merge or consolidate with other companies, payment of dividends, transfer or sell assets and make restricted payments. These covenants are subject to a number of limitations and exceptions set forth in the Credit Agreement. The Company was in compliance with these covenants as of March 31, 2018.

**11. Commitments and Contingencies**

*Operating and Capital Leases*

The Company leases its facilities under non-cancelable operating leases, which contain renewal options and escalation clauses, and expire on various dates ending in October 2027. Rent expense incurred under operating leases was $5.0 million and $4.3 million for the three months ended March 31, 2018 and 2017, respectively. The Company acquired certain assets under capital lease and technology license obligations. The capital lease and technology license obligations include future cash payments payable primarily for license agreements with various vendors.

On February 16, 2018, the Company signed a new purchase agreement with a third-party vendor for $23.2 million, payable in quarterly installments up to June 2019, in exchange for a 20-month license to certain design tools. This new purchase agreement replaced the purchase agreement entered into by the Company in September 2016 with the same third-party company for $31.5 million in exchange for a three-year license to certain design tools. The present value of the aggregate total consideration was recorded as design tools under property and equipment which will be amortized over the term of the license and the related liability was recorded under capital lease and technology license obligations. As a result of the cancellation of the September 2016 purchase agreement in February 2018, the Company wrote-off the related design tools within property and equipment and the unpaid installment obligations under capital lease and technology license obligations.

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Minimum commitments under non-cancelable operating and capital lease agreements as of March 31, 2018 are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Capital lease** | | |  |  |  |  |  |  |  |  |  |
|  |  |  | **and** | |  |  |  |  |  |  |  |  |  |
|  |  | **technology** | | |  | **Operating** | | |  |  |  |  |  |
|  |  |  | **license** | |  |  |  | **Total** | |  |
|  |  | **obligations** | | |  |  | **leases** | |  |  |  |
|  |  |  |  |  | **(in thousands)** | | | |  |  |  |  |  |
| Remainder of 2018 | $ | | 34,313 | | $ | | 14,517 | | $ | | 48,830 | |  |
| 2019 |  |  | 15,806 | |  |  | 19,591 | |  |  | 35,397 | |  |
| 2020 |  |  | — | |  |  | 18,726 | |  |  | 18,726 | |  |
| 2021 |  |  | — | |  |  | 18,292 | |  |  | 18,292 | |  |
| 2022 |  |  | — | |  |  | 42,974 | |  |  | 42,974 | |  |
| 2023 thereafter |  |  | — |  |  |  | 57,000 |  |  |  | 57,000 | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | $ | | 50,119 |  | $ | | 171,100 | | $ | | 221,219 | |  |
| Less: Interest component |  |  | 1,030 |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Present value of minimum lease payment |  |  | 49,089 |  |  |  |  |  |  |  |  |  |  |
| Current portion of the obligations |  | |  | |  |  |  |  |  |  |  |  |  |
|  | $ | 39,583 |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Long-term portion of obligations | $ | | 9,506 | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

*Merger Termination Fee*

As discussed in Note 1 of Notes to Condensed Consolidated Financial Statements, the Marvell Merger Agreement provides Marvell and the Company with certain termination rights and, under certain circumstances specified in the Marvell Merger Agreement, the Company could be required to pay Marvell a termination fee of up to $180.0 million.

*Legal Proceedings*

Four putative class actions challenging the Merger have been filed on behalf of the Company’s shareholders in the United States District Court for the Northern District of California. On January 2, 2018, a putative class action was filed by Scott Fineberg (Fineberg v. Cavium et al.). On January 8, 2018, a putative class action was filed by Tammy Raul (Raul v. Cavium et al.). Also, on January 8, 2018, a putative class action was filed by Shiva Stein (Stein v. Cavium et al.). Finally, on January 12, 2018, a putative class action was filed by Jordan Rosenblatt (Rosenblatt v. Cavium et al.). All four complaints assert claims for violation of section 14(a), Rule 14a-9 and section 20(a) based on allegations that the Registration Statement on Form S-4 filed by Marvell with the SEC on December 21, 2017 omits material information. Two of the complaints are filed against the Company and its directors; the other two complaints name those defendants as well as the Marvell entities. All complaints also assert control person claims against the members of Company’s board of directors. The Company believes the allegations and claims asserted in the complaints in the four putative class actions are without merit, and the Company intends to vigorously defend its position.

A fifth putative class action challenging the Merger was filed on January 29, 2018 in the Superior Court of California, Monterey County, by Paul Berger (“the Plaintiff”) on behalf of the Company’s shareholders (Berger v. Ali et al.). The Berger complaint asserts claims for breach of fiduciary duty against the Company and its directors based on allegations that the Merger provides shareholders insufficient value and that the proxy statement omits material information. On February 13, 2018, the plaintiff in the Berger action filed a motion for a temporary restraining order, seeking to enjoin the shareholder vote pending a hearing on a yet-to-be-filed preliminary injunction motion. On March 5, 2018, the Company entered into a Memorandum of Understanding (the “MOU”) with the Plaintiff in the Lawsuit. In the MOU, the Plaintiff acknowledged that the Lawsuit has become moot because the Defendants disclosed additional information sought by Plaintiff in his complaint in the Joint Proxy Statement/Prospectus. The Plaintiff agreed to withdraw his previously filed application for a temporary restraining order seeking to enjoin the Proposed Merger and to dismiss the Lawsuit. On March 5, 2018, the Plaintiff filed a

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stipulation with the Superior Court of the State of California for the County of Monterey (i) withdrawing his application for a temporary restraining order and

1. dismissing the claims asserted on his behalf with prejudice and on behalf of the purported class of the Company’s stockholders without prejudice. As set forth in the stipulation, counsel for the Plaintiff has reserved the right to seek an award of attorneys’ fees and reimbursement of expenses based on the creation of a benefit to the Company’s shareholders through the disclosure of additional information prompted by the pendency and prosecution of the Lawsuit. The Company has reserved the right to contest the amount of any fee and expense petition that the Plaintiff may pursue. If the parties cannot agree on a fee award for the Plaintiff’s counsel, the Superior Court of the State of California for the County of Monterey will ultimately determine the amount of fee award for the Plaintiff’s counsel, if any. The fee award for the Plaintiff’s counsel will not affect the amount of merger consideration to be paid by Marvell in connection with the Proposed Merger.

Shareholders may file additional lawsuits challenging the Merger, which may name the Company, Marvell, members of the boards of directors of either party, or others as defendants. No assurance can be made as to the outcome of such lawsuits or the lawsuits described above, including the amount of costs associated with defending these claims or any other liabilities that may be incurred in connection with the litigation of these claims. If plaintiffs are successful in obtaining an injunction prohibiting the parties from completing the Merger on the agreed-upon terms, such an injunction may delay the completion of the Merger in the expected timeframe, or may prevent the Merger from being completed altogether.

From time to time, the Company may be involved in other legal proceedings arising in the ordinary course of its business. The Company is not currently a party to any other legal proceedings, the outcome of which, if determined adversely to the Company, the Company believes would have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

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**Exhibit 99.3**

**CAVIUM, INC.**

**MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act of 1934, as amended). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with United States generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Our management does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017, utilizing the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based on the assessment by our management, it was determined that our internal control over financial reporting was effective at a reasonable assurance level as of December 31, 2017. Management reviewed the results of their assessment with our Audit Committee. The effectiveness of our internal control over financial reporting as of December 31, 2017, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

***Changes in Internal Control Over Financial Reporting***

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act of 1934, as amended) during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Disclosure Controls and Procedures***

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act of 1934, as amended) as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management as appropriate to allow for timely decisions regarding required disclosure.

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**Exhibit 99.4**

**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

On November 19, 2017, Marvell Technology Group Ltd., a Bermuda company (“Marvell”), Kauai Acquisition Corp., a Delaware corporation and indirect wholly-owned subsidiary of Marvell (“Merger Sub”) and Cavium, Inc., a Delaware corporation (“Cavium”) entered into an agreement and plan of merger (the “Merger Agreement”) pursuant to which Merger Sub will merge with and into Cavium, with Cavium surviving and becoming an indirect wholly-owned subsidiary of Marvell (the “Merger”). Subject to and upon the terms and the conditions set forth in the Merger Agreement and the applicable provisions of the Delaware General Corporation Law (“DGCL”), on the date on which the certificate of merger is filed with the Secretary of State of the State of Delaware or such later time as mutually agreed by Marvell and Cavium and specified in such certificate (the “Effective Time”), Merger Sub will be merged with and into Cavium, whereupon the separate corporate existence of Merger Sub will cease and Cavium will continue its existence under the laws of the State of Delaware as the surviving corporation and as a direct wholly-owned subsidiary of Marvell Technology Inc., a Delaware corporation (“MTI”), which is a direct wholly-owned subsidiary of Marvell. Marvell and Cavium expect to complete the Merger in the middle of calendar year 2018.

The following unaudited pro forma condensed combined financial information included herein presents the combination of the historical consolidated financial statements of Marvell and Cavium adjusted to give effect to the Merger and the new debt financing (the “Financing Transactions”). Under the terms of the Merger Agreement, each share of Cavium common stock that is outstanding immediately prior to the Effective Time (other than shares held by Marvell, Cavium, or any of their respective subsidiaries and shares as to which appraisal rights have been properly exercised pursuant to Delaware law) will be converted into the right to receive (a) 2.1757 Marvell common shares and (b) $40.00 in cash, without interest, less applicable withholding taxes.

The unaudited pro forma condensed combined balance sheet as of May 5, 2018 gives effect to the Merger and the Financing Transactions, as if each had been completed on May 5, 2018, and combines the unaudited condensed consolidated balance sheet of Marvell as of May 5, 2018 with Cavium’s unaudited condensed consolidated balance sheet as of March 31, 2018.

The unaudited pro forma condensed combined statements of operations for the year ended February 3, 2018 and three months ended May 5, 2018 give effect to the Merger and the Financing Transactions as if they had occurred on January 29, 2017, the beginning of the most recently completed fiscal year presented. The unaudited pro forma condensed combined statement of operations for the year ended February 3, 2018 combines the audited consolidated statement of operations of Marvell for the year ended February 3, 2018 with Cavium’s audited consolidated statement of operations for the year ended December 31, 2017. The unaudited pro forma condensed combined statement of operations for the three months ended May 5, 2018 combines the unaudited condensed consolidated statement of operations of Marvell for the three months ended May 5, 2018 with Cavium’s unaudited condensed consolidated statement of operations for the three months ended March 31, 2018.

The unaudited pro forma condensed combined financial information should be read in conjunction with:

* The accompanying notes to the unaudited pro forma condensed combined financial information;
* The separate audited consolidated financial statements of Marvell as of and for the year ended February 3, 2018 and the related notes, included in Marvell’s Annual Report on Form 10-K for the fiscal year ended February 3, 2018;
* The separate unaudited condensed consolidated financial statements of Marvell as of and for the three months ended May 5, 2018 and the related notes, included in Marvell’s Quarterly Report on Form 10-Q for the period ended May 5, 2018;
* The separate audited consolidated financial statements of Cavium as of and for the year ended December 31, 2017 and the related notes, filed as Exhibit 99.1 to Marvell’s Current Report on Form 8-K on which these financial statements are filed as an exhibit; and
* The separate unaudited condensed consolidated financial statements of Cavium as of and for the three months ended March 31, 2018 and the related notes, filed as Exhibit 99.2 to Marvell’s Current Report on Form 8-K on which these financial statements are filed as an exhibit.

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The unaudited pro forma condensed combined financial information presented is for illustrative purposes only and is not necessarily indicative of the financial position or results of operations that would have been realized if the Merger and Financing Transactions had been completed on the dates indicated, nor is it indicative of future operating results or financial position. The unaudited pro forma condensed combined financial information does not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the Merger, the costs to integrate the operations of Marvell and Cavium or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements. The pro forma adjustments represent Marvell’s best estimates and are based upon current available information and certain assumptions that Marvell believes are reasonable under the circumstances. The transaction is being accounted for as a business combination using the acquisition method with Marvell as the accounting acquirer in accordance with Accounting Standards Codification (“ASC”) Topic 805, *Business Combinations* (“ASC 805”). Under this method of accounting the purchase price will be allocated to Cavium’s assets acquired and liabilities assumed based upon their estimated fair values at the date of completion of the Merger. The process of valuing the tangible and intangible assets and liabilities of Cavium immediately prior to the Merger, as well as evaluating accounting policies for conformity, is preliminary. The final valuation may materially change the allocation of the merger consideration, which could materially affect the fair values assigned to the assets and liabilities and could result in a material change to the unaudited pro forma condensed combined financial information. Refer to Note 3 of the *“Notes to Unaudited Pro Forma Condensed Combined Financial Information”* for more information on the basis of presentation.

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**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**

**AS OF MAY 5, 2018**

**(In thousands)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Historical** | | | | | |  |  |  |  |  |  |  |  |  |  |  |  | **May 5, 2018** | | |  |
|  |  |  | **May 5, 2018** | | | | **March 31, 2018** | |  |  |  |  |  | **Financing** | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | **Reclassification** | | |  |  |  | **Pro Forma** | | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | **Transactions** | | |  |  |  | **Pro Forma** | | |  |
|  |  |  |  | **Marvell** | | |  | **Cavium** | |  | **Adjustments** | | **Adjustments** | | |  |  | **Adjustments** | | |  |  |
|  |  |  |  |  |  | **(Note 4)** | |  | **(Note 6)** | |  |  |  | **(Note 7)** | |  | **Combined** | | |  |
|  | **ASSETS** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Current assets: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Cash and cash equivalents | $ | | 1,167,258 | |  | $ | 181,601 | | $ | — | | $ | 2,609,899 | | 6(a) | $ | | (3,527,502) | | 7(a) | $ | 431,256 | |  |
|  | Short-term investments |  |  | 712,053 | |  |  | — | |  | — | |  | (712,053) | | 6(b) |  |  | — | |  |  | — | |  |
|  | Accounts receivable, net |  |  | 329,650 | |  |  | 204,524 | |  | — | |  | — | |  |  |  | — | |  |  | 534,174 | |  |
|  | Inventories |  |  | 169,556 | |  |  | 102,171 | |  | — | |  | — | |  |  |  | 207,829 | | 7(b) |  | 479,556 | |  |
|  | Prepaid expenses and other current assets |  |  | 38,868 | |  |  | 29,121 | |  | — | |  | 310 | | 6(c) |  |  | — | |  |  | 68,299 | |  |
|  | Assets held for sale |  |  | 30,707 |  |  |  | — |  |  | — |  |  | — |  |  |  |  | — |  |  |  | 30,707 | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Total current assets |  |  | 2,448,092 |  |  |  | 517,417 |  |  | — |  |  | 1,898,156 | |  |  |  | (3,319,673) | |  |  | 1,543,992 |  |  |
|  | Property and equipment, net |  |  | 213,656 | |  |  | 193,742 | |  | — | |  | — | |  |  |  | (10,742) | | 7(c) |  | 396,656 | |  |
|  | Intangible assets, net |  |  | — | | |  | 633,017 | |  | — | |  | — | |  |  |  | 2,155,383 |  | 7(d) |  | 2,788,400 |  |  |
|  | Goodwill |  |  | 1,993,310 | |  |  | 237,692 | |  | — | |  | — | |  |  |  | 3,318,533 |  | 7(e) |  | 5,549,535 |  |  |
|  | Other non-current assets |  |  | 209,261 | |  |  | 7,182 | |  | — | |  | (14,423) | | 6(d) |  |  | — | |  |  | 202,020 | |  |
|  | Total assets |  | $ | 4,864,319 |  |  | $ | 1,589,050 |  | $ | — |  | $ | 1,883,733 |  |  |  | $ | 2,143,501 |  |  | $ | 10,480,603 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **LIABILITIES AND SHAREHOLDERS’ EQUITY** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Current liabilities: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Accounts payable | $ | | 157,043 | |  | $ | 83,952 | | $ | — | | $ | — | |  | $ | | (2,815) | | 7(f) | $ | 238,180 | |  |
|  | Accrued liabilities |  |  | 180,117 | |  |  | — | |  | 59,145 | |  | — | |  |  |  | (6,742) | | 7(g) |  | 232,520 | |  |
|  | Accrued expenses and other current liabilities |  |  | — | | |  | 42,648 | |  | (42,648) | |  | — | |  |  |  | — | |  |  | — | |  |
|  | Accrued employee compensation |  |  | 105,601 | |  |  | — | |  | 23,086 | |  | — | |  |  |  | — | |  |  | 128,687 | |  |
|  | Deferred income |  |  | 1,880 | |  |  | 6,751 | |  | — | |  | — | |  |  |  | — | |  |  | 8,631 | |  |
|  | Current portion of long-term debt |  |  | — | | |  | 3,278 | |  | — | |  | — | |  |  |  | (3,278) | | 7(h) |  | — | |  |
|  | Capital lease and technology license obligations |  |  | — | | |  | 39,583 | |  | (39,583) | |  | — | |  |  |  | — | |  |  | — | |  |
|  | Total current liabilities |  |  | 444,641 |  |  |  | 176,212 |  |  | — |  |  | — |  |  |  |  | (12,835) |  |  |  | 608,018 |  |  |
|  | Long-term debt |  |  | — | | |  | 592,131 | |  | — | |  | 1,883,733 | | 6(e) |  |  | (592,131) | | 7(i) |  | 1,883,733 |  |  |
|  | Capital lease and technology license obligations, net of |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | current portion |  |  | — | | |  | 9,506 | |  | (9,506) | |  | — | |  |  |  | — | |  |  | — | |  |
|  | Deferred tax liability |  |  | — | | |  | 2,751 | |  | 52,292 | |  | — | |  |  |  | 177,384 | | 7(j) |  | 232,427 | |  |
|  | Non-current income taxes payable |  |  | 56,606 | |  |  | — | |  | 3,345 | |  | — | |  |  |  | — | |  |  | 59,951 | |  |
|  | Other non-current liabilities |  |  | 77,561 | |  |  | 31,141 | |  | (46,131) | |  | — | |  |  |  | (19,493) | | 7(k) |  | 43,078 | |  |
|  | Total liabilities |  |  | 578,808 |  |  |  | 811,741 |  |  | — |  |  | 1,883,733 |  |  |  |  | (447,075) |  |  |  | 2,827,207 |  |  |
|  | Commitments and contingencies |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Shareholders’ equity: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Common shares |  |  | 1,000 | |  |  | 70 | |  | — | |  | — | |  |  |  | 237 |  | 7(m)7(n) |  | 1,307 | |  |
|  | Additional paid-in capital |  |  | 2,744,478 | |  |  | 1,223,035 | |  | — | |  | — | |  |  |  | 2,270,251 |  | 7(m)7(n)7(o) |  | 6,237,764 |  |  |
|  | Accumulated other comprehensive (loss) income |  |  | (2,404) | | |  | 810 | |  | — | |  | — | |  |  |  | (810) | | 7(m) |  | (2,404) | |  |
|  | Retained earnings |  |  | 1,542,437 |  |  |  | (446,606) | |  | — | |  | — | |  |  |  | 320,898 | | 7(l) |  | 1,416,729 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Total shareholders’ equity |  |  | 4,285,511 | | |  | 777,309 | |  | — | |  | — | |  |  |  | 2,590,576 |  |  |  | 7,653,396 |  |  |
|  | Total liabilities and shareholders’ equity |  | $ | 4,864,319 |  |  | $ | 1,589,050 |  | $ | — |  | $ | 1,883,733 |  |  |  | $ | 2,143,501 |  |  | $ | 10,480,603 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

See accompanying notes to unaudited pro forma condensed combined financial information.

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**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS FOR THE YEAR ENDED FEBRUARY 3, 2018 (In thousands, except per share amounts)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Historical** | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  | **Year Ended** | |  |
|  |  |  |  | **Year Ended** | |  | **Year Ended** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | **February 3, 2018** | | | **December 31, 2017** | | |  |  |  |  |  | **Financing** | |  |  |  |  |  | **February 3, 2018** | | |  |
|  |  |  |  |  |  |  |  |  |  | **Reclassification** | |  |  |  | **Pro Forma** | | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  | **Transactions** | | |  |  |  | **Pro Forma** | |  |
|  |  |  |  | **Marvell** | |  | **Cavium** | |  |  | **Adjustments** |  | **Adjustments** | | |  | **Adjustments** | | |  |  |  |
|  |  |  |  |  |  |  | **(Note 4)** |  |  | **(Note 6)** | |  |  | **(Note 8)** | |  |  | **Combined** | |  |
|  | Net revenue |  | $ | 2,409,170 |  | $ | 984,018 |  |  | $ | — |  | $ | — |  |  | $ | — |  |  | $ | 3,393,188 |  |  |
|  | Cost of goods sold |  |  | 947,230 | |  | 484,434 | |  |  | — |  |  | — | |  |  | 176,437 | | 8(a) | | 1,608,101 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gross profit |  |  | 1,461,940 | |  | 499,584 | |  |  | — |  |  | — | |  |  | (176,437) | |  |  | 1,785,087 |  |  |
| Operating expenses: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Research and development |  |  | 714,444 | |  | 377,941 | |  |  | — |  |  | — | |  |  | 23,189 | | 8(b) | | 1,115,574 | |  |
|  | Selling, general and administrative |  |  | 238,166 | |  | 178,335 | |  |  | — |  |  | — | |  |  | (83) | | 8(c) | | 416,418 | |  |
|  | Litigation settlement |  |  | 74,385 | |  | — | |  |  | — |  |  | — | |  |  | — | |  |  | 74,385 | |  |
|  | Restructuring related charges |  |  | 5,250 | |  | — | |  |  | — |  |  | — | |  |  | — | |  |  | 5,250 | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Total operating expenses |  |  | 1,032,245 | |  | 556,276 | |  |  | — |  |  | — | |  |  | 23,106 | |  |  | 1,611,627 | |  |
| Operating income (loss) from continuing operations | |  |  | 429,695 |  |  | (56,692) |  |  |  | — |  |  | — |  |  |  | (199,543) |  |  |  | 173,460 |  |  |
|  | Interest and other income, net |  |  | 21,509 | |  | (28,927) | |  |  | — |  |  | (79,951) | | 6(f) |  | 29,147 | | 8(d) | | (58,222) | |  |
| Income (loss) from continuing operations before | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | income taxes |  |  | 451,204 | |  | (85,619) | |  |  | — |  |  | (79,951) | |  |  | (170,396) | |  |  | 115,238 | |  |
|  | Provision (benefit) for income taxes |  |  | 18,062 | |  | (16,760) | |  |  | — |  |  | — | |  |  | (5,318) | | 8(e) | | (4,016) | |  |
| Net income (loss) from continuing operations | |  | $ | 433,142 |  | $ | (68,859) |  |  | $ | — |  | $ | (79,951) |  |  | $ | (165,078 | ) |  | $ | 119,254 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Net income (loss) per share from continuing |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | operations: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Basic | $ | | 0.87 | | $ | (1.01) | |  |  |  |  |  |  |  |  |  |  |  | $ | | 0.18 | |  |
|  | Diluted | $ | | 0.85 | | $ | (1.01) | |  |  |  |  |  |  |  |  |  |  |  | $ | | 0.18 | |  |



|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Weighted average shares: |  |  |  |  |
| Basic | 498,008 | 68,394 | 652,551 | 8(f) |
| Diluted | 509,667 | 68,394 | 669,566 | 8(f) |

See accompanying notes to unaudited pro forma condensed combined financial information.

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**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS FOR THE THREE MONTHS ENDED MAY 5, 2018 (In thousands, except per share amounts)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Historical** | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Three Months Ended** | | | **Three Months Ended** | |  | **Reclassification** | |  |  | **Financing** | |  | **Pro Forma** | | |  | **Three Months Ended** | |  |  |
|  |  |  | **May 5, 2018** |  |  | **March 31, 2018** |  |  | **Transactions** | | |  |  |  | **May 5, 2018** |  |  |
|  |  |  | **Marvell** | |  | **Cavium** | |  | **Adjustments** |  | **Adjustments** | | |  | **Adjustments** | | |  |  | **Pro Forma** |  |  |
|  |  |  |  |  | **(Note 4)** |  |  | **(Note 6)** | |  |  | **(Note 8)** | |  |  | **Combined** | |  |
|  | Net revenue | $ | 604,631 |  | $ | 230,761 |  | $ | — |  | $ | — |  |  | $ | — |  |  | $ | 835,392 |  |  |
|  | Cost of goods sold |  | 228,938 |  |  | 113,080 |  |  | — |  |  | — |  |  |  | 44,906 | | 8(a) |  | 386,924 | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gross profit |  | 375,693 |  |  | 117,681 |  |  | — |  |  | — |  |  |  | (44,906) | |  |  | 448,468 | |  |
| Operating expenses: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Research and development |  | 176,734 | |  | 110,619 | |  | — |  |  | — | |  |  | 2,385 | | 8(b) |  | 289,738 | |  |
|  | Selling, general and administrative |  | 72,313 | |  | 43,621 | |  | — |  |  | — | |  |  | (11,813) | | 8(c) |  | 104,121 | |  |
|  | Restructuring related charges |  | 1,567 | |  | — | |  | — |  |  | — | |  |  | — | |  |  | 1,567 | |  |
|  | Total operating expenses |  | 250,614 |  |  | 154,240 |  |  | — |  |  | — |  |  |  | (9,428) |  |  |  | 395,426 |  |  |
|  | Operating income (loss) from continuing |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | operations |  | 125,079 | |  | (36,559) | |  | — |  |  | — | |  |  | (35,478) | |  |  | 53,042 | |  |
|  | Interest and other income, net |  | 7,296 | |  | (6,799) | |  | — |  |  | (20,014) 6(f) | |  |  | 6,733 | | 8(d) |  | (12,784) | |  |
|  | Income (loss) from continuing operations |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | before income taxes |  | 132,375 | |  | (43,358) | |  | — |  |  | (20,014) | |  |  | (28,745) | |  |  | 40,258 | |  |
|  | Provision (benefit) for income taxes |  | 3,763 | |  | (1,371) | |  | — |  |  | — | |  |  | (205) | | 8(e) |  | 2,187 | |  |
|  | Net income (loss) from continuing |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | operations | $ | 128,612 | | $ | (41,987) | | $ | — | $ | | (20,014) | | $ | | (28,540) | |  | $ | 38,071 | |  |
| Net income (loss) per share from | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | continuing operations: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Basic | $ | 0.26 | | $ | (0.60) | |  |  |  |  |  |  |  |  |  |  |  | $ | 0.06 | |  |
|  | Diluted | $ | 0.25 | | $ | (0.60) | |  |  |  |  |  |  |  |  |  |  |  | $ | 0.06 | |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Weighted average shares: |  |  |  |  |
| Basic | 497,335 | 69,650 | 651,878 | 8(f) |
| Diluted | 508,716 | 69,650 | 672,782 | 8(f) |

See accompanying notes to unaudited pro forma condensed combined financial information.

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**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

**1. Description of the Merger**

On November 19, 2017, Marvell, Merger Sub and Cavium entered into the Merger Agreement pursuant to which Merger Sub will merge with and into Cavium, with Cavium surviving and becoming an indirect wholly-owned subsidiary of Marvell. Subject to and upon the terms and the conditions set forth in the Merger Agreement and the applicable provisions of the DGCL, at the Effective Time of the Merger, Merger Sub will be merged with and into Cavium, whereupon the separate corporate existence of Merger Sub will cease and Cavium will continue its existence under the laws of the State of Delaware as the surviving corporation and as a direct wholly-owned subsidiary of MTI, which is a direct wholly-owned subsidiary of Marvell. The merger consideration is estimated to be $6.3 billion and will be funded with a combination of cash on balance sheet, and cash provided from the Financing Transactions and issuance of Marvell common shares in connection with the Merger. Refer to Note 5 of the *“Notes to Unaudited Pro Forma Condensed Combined Financial* *Information”* for additional information on the estimated merger consideration.

Under the terms of the Merger Agreement, each share of Cavium common stock that is outstanding immediately prior to the Effective Time (other than shares held by Marvell, Cavium, or any of their respective subsidiaries and shares as to which appraisal rights have been properly exercised pursuant to Delaware law) will be converted into the right to receive (a) 2.1757 Marvell common shares and (b) $40.00 in cash, without interest, less applicable withholding taxes.

Under the terms of the Merger Agreement, at the Effective Time, each outstanding and unexercised Cavium stock option, whether or not vested, other than Cavium stock options held by non-employee directors of Cavium’s board of directors who will not serve on Marvell’s board of directors following the Effective Time (“Director Option”), will be assumed by Marvell and converted into an option to purchase, on the same terms and conditions as were applicable under such Cavium stock option, that number of Marvell common shares (rounded down to the nearest whole share) equal to the product of (i) the number of shares of Cavium common stock subject to such Cavium stock option, multiplied by (ii) the Conversion Ratio (as defined below), at an exercise price per Marvell common share (rounded up to the nearest whole cent) equal to the quotient obtained by dividing (A) the per share exercise price for the Cavium common stock subject to such Cavium stock option, by (B) the Conversion Ratio. “Conversion Ratio” is defined in the Merger Agreement as an amount equal to the sum of (a) the Exchange Ratio of 2.1757, plus (b) the quotient obtained by dividing (i) the Per Share Cash Amount of $40.00 by (ii) the volume weighted average trading price of a Marvell common share for the five consecutive trading days ending on the trading day immediately preceding the closing date of the Merger.

Under the terms of the Merger Agreement, at the Effective Time, each Director Option that is outstanding and vested immediately prior to the Effective Time, will be canceled, and the holder thereof will be entitled to receive (subject to any applicable withholding or other taxes, or other amounts required by applicable legal requirements to be withheld) an amount in cash equal to the product of (i) the positive difference (if any) between (A) the Equity Award Cash Consideration (as defined below), minus (B) the exercise price applicable to such Director Option, multiplied by (ii) the number of shares of Cavium common stock subject to such Director Option. “Equity Award Cash Consideration” is defined in the Merger Agreement as an amount of cash equal to the sum of

1. the Per Share Cash Amount of $40.00 plus (ii) the product of (A) the Exchange Ratio of 2.1757, multiplied by (B) the volume weighted average trading price of a Marvell common share for the five consecutive trading days ending on the trading day immediately preceding the closing date of the Merger.

Under the terms of the Merger Agreement, at the Effective Time, each Cavium restricted stock unit (“RSU”) that is outstanding and unvested, other than any Cavium RSU held by a non-employee director of Cavium’s board of directors, will be converted into the number of Marvell restricted stock units (rounded down to the nearest whole share) equal to the product of (a) the number of shares of Cavium common stock subject to such Cavium RSU, multiplied by (b) the Conversion Ratio.

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Under the terms of the Merger Agreement, at the Effective Time, each Cavium RSU (a) that is outstanding and vested (and with respect to which shares of Cavium common stock have not yet been issued) immediately prior to the Effective Time (including any Cavium RSU that becomes vested by its terms immediately prior to or as of the Effective Time) or (b) that is outstanding and held by a non-employee director of Cavium’s board of directors immediately prior to the Effective Time, whether vested or unvested (which awards will vest in full as of immediately prior to the Effective Time), in the case of each of clauses “(a)” or “(b),” will be canceled and extinguished, and the holder thereof will be entitled to receive (subject to applicable withholding or other taxes, which withholding will first be applied against the cash portion of the consideration paid in respect of such restricted stock units): (i) an amount in cash equal to the product of (A) the Per Share Cash Amount of $40.00, multiplied by (B) the total number of shares of Cavium common stock subject to such Cavium RSU; and (ii) a number of Marvell common shares equal to the product of (A) the Exchange Ratio of 2.1757, multiplied by (B) the total number of shares of Cavium common stock subject to such Cavium RSU.

Under the terms of the Merger Agreement, at the Effective Time, each Cavium performance restricted stock unit (“PRSU”) that is outstanding and unvested immediately prior to the Effective Time will be assumed and converted into that number of Marvell restricted stock units, rounded down to the nearest whole share, equal to the product of (a) the target number of shares of Cavium common stock subject to such Cavium PRSU, multiplied by (b) the Conversion Ratio. Such Marvell restricted stock units: (i) will vest based on the vesting date set forth in the award agreement applicable to such performance-based restricted stock unit prior to the Effective Time, subject only to the continued service of the grantee with the surviving corporation in the Merger, Marvell or any of their affiliates through the applicable vesting date; (ii) will not be subject to any performance-based vesting terms following the Effective Time; and (iii) will otherwise be subject to the same terms and conditions as were applicable under such Cavium PRSUs prior to the Effective Time.

**2. Description of the Financing Transactions**

In connection with the Merger, Marvell has obtained a $900.0 million three-year term loan facility (the “Term Loan Facility”) and a revolving credit facility in an aggregate committed amount of $500.0 million (the “Revolving Credit Facility”). In addition, Marvell has entered into a debt commitment letter (the “Debt Commitment Letter”) for an $850.0 million bridge facility (the “Bridge Facility”).

Subject to the terms and conditions of the Debt Commitment Letter, the initial lenders have committed to provide the full amount of the Bridge Facility. The proceeds of the Term Loan Facility, the Bridge Facility and certain borrowings under the Revolving Credit Facility will be used, together with cash on hand of Marvell and Cavium and/or other available financing resources, (a) to finance the cash portion of the Merger Consideration payable pursuant to the terms of the Merger Agreement, (b) to refinance certain existing indebtedness of Cavium (the “Cavium Term Facility”), (c) to pay related transaction costs and (d) for general corporate purposes. In lieu of borrowing, in whole or in part, under the Bridge Facility, Marvell expects to obtain permanent debt financing. There can be no assurance, however, that Marvell will be able to obtain any such permanent debt financing.

The initial lenders’ commitments under the Debt Commitment Letter include conditions typical for facilities of this kind, including a condition as to the execution and delivery of the definitive financing documentation for the Bridge Facility by Marvell and certain of its subsidiaries. As of the date of the Current Report on Form 8-K on which these financial statements are filed as an exhibit, neither Marvell nor any of its subsidiaries has entered into definitive agreements for the Bridge Facility.

Given the above, the unaudited pro forma condensed combined financial information assumes the Merger will be financed with the Term Loan Facility in an amount of $900.0 million, permanent debt financing of $850.0 million in the form of two $425.0 million senior unsecured debt financings (collectively, the “Other Senior Unsecured Debt Financing”) in lieu of the Bridge Facility and borrowings in an amount $150.0 million under the $500.0 million Revolving Credit Facility. Notwithstanding the foregoing, in the event the Other Senior Unsecured Debt Financing is not obtained or the aggregate amount thereof is less than $850.0 million, Marvell expects to obtain loans under the Bridge Facility in an amount of $850.0 million less the amount of the Other Senior Unsecured Debt Financing.

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***Term Loan Facility***

The unaudited pro forma condensed combined financial information assumes that interest on the Term Loan Facility will be payable quarterly at a rate equal to LIBOR + 1.375% per annum. The Term Loan Facility will mature on the date that is three years after the date of funding under the Term Loan Facility. The Term Loan Facility does not require any scheduled amortization prior to the final maturity thereof. The Term Loan Facility will not be subject to any mandatory prepayments.

***Revolving Credit Facility***

The total capacity of the Revolving Credit Facility is $500.0 million and will be available for draw until the date that is five years after the closing date of the Revolving Credit Facility. The unaudited pro forma condensed combined financial information assumes any drawn amounts will incur interest at a rate equal to LIBOR + 1.500% per annum, with amounts payable quarterly.

***Other Senior Unsecured Debt Financing***

The unaudited pro forma condensed combined financial information assumes that the interest on the Other Senior Unsecured Debt Financing will be payable semi-annually at a weighted average rate equal to 4.555% per annum. The Other Senior Unsecured Debt Financing is expected to be comprised of:

1. $425.0 million in permanent debt financing with the outstanding principal balance due upon the maturity date that will be five years after the closing date of the debt financing (the “Other Senior Unsecured Debt Financing—5 yr”); and (b) $425.0 million in permanent debt financing with the outstanding principal balance due upon the maturity date that will be ten years after the closing date of the debt financing (the “Other Senior Unsecured Debt Financing— 10 yr”).

***Bridge Facility***

In the event that the Other Senior Unsecured Debt Financing is not obtained or the amount thereof is less than $850.0 million, Marvell expects to enter into the Bridge Facility in an amount of $850.0 million (less the amount of the Other Senior Unsecured Debt Financing). The unaudited combined pro forma financial information assumes the Bridge Facility will incur interest at a rate equal to LIBOR + 1.500% per annum, with amounts payable quarterly. The Bridge Facility will mature on the date that is 364 days after the date of funding under the Bridge Facility. The Bridge Facility does not require any scheduled amortization prior to the final maturity thereof. Subject to certain exceptions and thresholds, the Bridge Facility will be required to be prepaid with proceeds relating to (a) non-ordinary course asset sales or other dispositions and (b) the issuance of certain equity securities or the incurrence of certain indebtedness.

**3. Basis of Presentation**

The unaudited pro forma condensed combined financial information was prepared in accordance with Article 11 of Regulation S-X and gives effect to events that are (1) directly attributable to the Merger and the Financing Transactions, (2) factually supportable and (3) with respect to the condensed combined statement of operations, expected to have a continuing impact on the combined company’s results. The unaudited pro forma condensed combined financial information and related notes have been prepared utilizing period ends that differ by fewer than 93 days, as permitted by Regulation S-X.

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting in accordance with ASC 805, with Marvell as the accounting acquirer, using the fair value concepts defined in ASC Topic 820, *Fair Value Measurement*, and based on the historical consolidated financial statements of Marvell and Cavium. Under ASC 805, all assets acquired and liabilities assumed in a business combination are recognized and measured at their assumed acquisition date fair value, while transaction costs and restructuring costs associated with the business combination are expensed as incurred. The excess of merger consideration over the fair value of assets acquired and liabilities assumed, if any, is allocated to goodwill. Acquired in-process research and development (“IPR&D”) is recorded at fair value as an indefinite-lived intangible asset at the assumed merger date until completion or abandonment of the associated research and development efforts. Upon completion of development, acquired IPR&D assets are considered amortizable, finite-lived assets.

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The allocation of the purchase consideration for the Merger depends upon certain estimates and assumptions, all of which are preliminary. The allocation of the purchase consideration has been made for the purpose of developing the unaudited pro forma condensed combined financial information. A final determination of fair values of assets acquired and liabilities assumed relating to the acquisition could differ materially from the preliminary allocation of purchase consideration. This final valuation will be based on the actual net tangible and intangible assets of Cavium existing at the acquisition date. The final valuation may materially change the allocation of purchase consideration, which could materially affect the fair values assigned to the assets and liabilities and could result in a material change to the unaudited pro forma condensed combined financial information.

The pro forma adjustments represent Marvell management’s best estimates and are based upon currently available information and certain assumptions that Marvell believes are reasonable under the circumstances. Marvell is not aware of any material transactions between Marvell and Cavium (prior to the announcement of the Merger) during the periods presented, hence adjustments to eliminate transactions between Marvell and Cavium have not been reflected in the unaudited pro forma condensed combined financial information.

Upon completion of the Merger, Marvell will perform a comprehensive review of Cavium’s accounting policies. As a result of the review, Marvell may identify additional differences between the accounting policies of the two companies, which when conformed, could have a material impact on the unaudited pro forma condensed combined financial information. Based on a preliminary analysis, Marvell did not identify any differences that would have a material impact on the unaudited pro forma condensed combined financial information. As a result, the unaudited pro forma condensed combined financial information assumes there are no differences in accounting policies.

The unaudited pro forma condensed combined financial information presented is for illustrative purposes only and is not necessarily indicative of the financial position or results of operations that would have been realized if the Merger and Financing Transactions had been completed on the dates indicated, nor is it indicative of future operating results or financial position. The unaudited pro forma condensed combined financial information does not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the Merger, the costs to integrate the operations of Marvell and Cavium or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

**4. Reclassification Adjustments**

The accounting policies used in the preparation of this unaudited pro forma condensed combined financial information are those set out in Marvell’s financial statements as of and for the year ended February 3, 2018. With the information currently available, Marvell has determined that no significant adjustments are necessary to conform Cavium’s financial statements to the accounting policies used by Marvell in the preparation of the unaudited pro forma condensed combined financial information.

Certain reclassification adjustments have been made to the unaudited pro forma condensed combined financial information to conform Cavium’s historical unaudited condensed consolidated balance sheet as of March 31, 2018 to Marvell’s financial statement presentation.

The unaudited pro forma condensed combined financial information may not reflect all reclassifications necessary to conform Cavium’s financial statement presentation to that of Marvell due to limitations on the availability of information as of the date of the Current Report on Form 8-K on which these financial statements are filed as an exhibit. Additional reclassification adjustments may be identified as more information becomes available.

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**5. Calculation of Estimated Merger Consideration and Preliminary Purchase Price Allocation**

***Estimated Merger Consideration***

The estimated merger consideration for the purpose of this unaudited pro forma condensed combined financial information is $6.3 billion. Estimated merger consideration was determined by reference to the fair value on June 8, 2018. The calculation of estimated merger consideration is as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Shares** | **Per Share** | **Total** | |
|  | **(In thousands, except share and** | | |  |
|  |  | **per share amounts)** |  |  |
| Estimated cash paid for outstanding Cavium common shares (1) |  |  | $2,819,750 | |
| Estimated shares of Marvell’s common shares issued to Cavium’s common |  |  |  |  |
| shareholders (2) | 153,373,256 | $ 21.75 | 3,335,868 | |
| Estimated cash paid for Cavium’s equity awards (3) |  |  | 4,685 | |
| Estimated replacement equity awards for Cavium’s equity awards (4) |  |  | 119,457 | |
|  |  |  |  |  |
| Preliminary estimated merger consideration |  |  | $6,279,760 | |
|  |  |  |  |  |

1. The cash component of the estimated merger consideration is computed based on 100% of the outstanding shares of Cavium common stock being exchanged for the Per Share Cash Amount of $40.00.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Shares** | **Per Share** | **Total** | |
|  | **(In thousands, except per share** | | |  |
|  |  | **amounts)** |  |  |
| Cavium common shares outstanding as of June 8, 2018 | 70,494 | $ 40.00 | $2,819,750 | |

1. The stock consideration component of the estimated merger consideration is computed based on 100% of the outstanding shares of Cavium common stock being exchanged for the Exchange Ratio of 2.1757 Marvell common shares.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Shares** | **Exchange Ratio** |  | **Total** | |
|  | **(In thousands, except exchange ratio and per** | | | |  |
|  |  | **share amounts)** |  |  |  |
| Cavium common shares outstanding as of June 8, 2018 | 70,494 | 2.1757 | $ | 153,373 | |
| Marvell common share price as of June 8, 2018 |  |  | $ | 21.75 | |
|  |  |  |  |  |  |
|  |  |  | $ | 3,335,868 | |
|  |  |  |  |  |  |

1. Estimated cash consideration for the settlement of the outstanding vested Director Options, outstanding vested Cavium RSUs and outstanding Cavium RSUs held by non-employee directors of Cavium’s board of directors which will be cancelled and paid out at the time of the close of the Merger.
2. Estimated consideration for replacement of Cavium’s outstanding equity awards. As discussed in Note 1 of the *“Notes to Unaudited Pro Forma* *Condensed Combined Financial Information,”* Cavium’s outstanding equity awards will be replaced by Marvell’s equity awards with similar terms. Aportion of the fair value of Marvell’s equity awards issued represents consideration transferred, while a portion represents compensation expense based on the vesting terms of the equity awards.

The final estimated merger consideration could significantly differ from the amounts presented in the unaudited pro forma condensed combined financial information due to movements in the Marvell common share price up to the Closing Date of the Merger. A sensitivity analysis related to the fluctuation in the Marvell common share price was performed to assess the impact a hypothetical change of 10% on the closing price of Marvell common shares on June 8, 2018 would have on the estimated merger consideration and goodwill as of the Closing Date.

The following table shows the change in share price, estimated merger consideration and goodwill:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Share price** | **Estimated Merger** | | **Goodwill** | |  |
|  |  |  | **Consideration** |  |
|  |  | **(In thousands, except per share amounts)** | | | |  |  |
| Increase of 10% | $ 23.93 | | $ | 6,613,347 | $3,889,812 | |  |
| Decrease of 10% | 19.58 | |  | 5,946,173 | 3,222,638 | |  |
|  | 10 |  |  |  |  |  |  |

***Preliminary Purchase Price Allocation***

Under the acquisition method of accounting, the identifiable assets acquired and liabilities assumed of Cavium are recognized and measured as of the acquisition date at fair value and added to those of Marvell. The determination of fair value used in the pro forma adjustments presented herein are preliminary and based on management estimates of the fair value and useful lives of the assets acquired and liabilities assumed and have been prepared to illustrate the estimated effect of the Merger. The final determination of the purchase price allocation, upon the completion of the Merger, will be based on Cavium’s net assets acquired as of that date and will depend on a number of factors that cannot be predicted with certainty at this time. Therefore, the actual allocations will differ from the pro forma adjustments presented and such differences may be material. The allocation is dependent upon certain valuation and other studies that have not yet been completed. Accordingly, the pro forma purchase price allocation is subject to further adjustment as additional information becomes available and as additional analyses and final valuations are completed. There can be no assurances that these additional analyses and final valuations will not result in significant changes to the estimates of fair value set forth below.

The following table sets forth a preliminary allocation of the estimated merger consideration to the identifiable tangible and intangible assets acquired and liabilities assumed of Cavium based on Cavium’s unaudited condensed consolidated balance sheet as of March 31, 2018, with the excess recorded to goodwill:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  | **Pro Forma** | |
|  |  | **May 5, 2018** | | |
|  |  | **(In thousands)** | |  |
| Cash and cash equivalents | $ | | 181,601 |  |
| Accounts receivable |  |  | 204,524 |  |
| Inventories |  |  | 310,000 |  |
| Prepaid expenses and other current assets |  |  | 29,121 |  |
| Property and equipment |  |  | 183,000 |  |
| Goodwill (1) |  |  | 3,556,225 |  |
| Intangible assets |  |  | 2,788,400 |  |
| Other non-current assets |  |  | 7,182 |  |
|  |  |  | 7,260,053 |  |
| Accounts payable |  |  | (83,952) | |
| Accrued liabilities |  |  | (57,557) | |
| Accrued employee compensation |  |  | (23,086) | |
| Deferred income |  |  | (6,751) | |
| Current portion of long-term debt |  |  | (6,123) | |
| Long-term debt |  |  | (601,535) | |
| Deferred tax liability |  |  | (180,135) | |
| Non-current income taxes payable |  |  | (3,345) | |
| Other non-current liabilities |  |  | (17,809) | |
|  |  |  |  |  |
|  |  |  | (980,293) | |
| Estimated merger consideration |  | $ | 6,279,760 |  |
|  |  |  |  |  |

1. Goodwill represents excess of merger consideration over the fair value of the underlying net assets acquired. In accordance with ASC Topic 350, *Goodwill and Other Intangible Assets*, goodwill is not amortized, but instead is reviewed for impairment at least annually, absent any indicators ofimpairment. Goodwill is attributable to planned growth in new markets and synergies expected to be achieved from the combined operations of Marvell and Cavium. Goodwill recorded in the Merger is not expected to be deductible for tax purposes.

***Intangible Assets***

Preliminary identifiable intangible assets in the unaudited pro forma condensed combined financial information consists of the following:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Preliminary** | | | **Estimated** | |
|  |  |  | **Fair Value** | | **Useful Life** | |
|  |  |  | **(In thousands)** | | |  |
| **Assets:** |  |  |  |  |  |  |
| Developed technology | $ | | 1,805,000 |  | 5 to 7 Years | |
| In-process research and development |  |  | 476,000 |  | N/A | |
| Customer contracts and related relationships |  |  | 480,000 |  | 8 Years | |
| Trade names / trademarks / domain names |  |  |  |  | 3 to 5 | |
|  |  |  | 26,000 |  | Years | |
| Below market lease assets |  |  | 1,400 |  | 6 Years | |
|  | $ | | 2,788,400 |  |  |  |
| **Liabilities:** |  |  |  |  |  |  |
| Above market lease liabilities |  |  |  |  | 3 to 5 | |
|  | $ | | (1,900) | | Years | |

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The identifiable intangible assets and related amortization are preliminary and are based on management’s estimates after consideration of similar transactions. As discussed above, the amount that will ultimately be allocated to identifiable intangible assets and liabilities, and the related amount of amortization, may differ materially from this preliminary allocation. In addition, the periods the amortization impacts will ultimately be based upon the periods in which the associated economic benefits or detriments are expected to be derived, or where appropriate, based on the use of a straight-line method. Therefore, the amount of amortization following the Merger may differ significantly between periods based upon the final value assigned and amortization methodology used for each identifiable intangible asset and liability.

***Property and Equipment***

The property and equipment valued in the preliminary purchase price allocation discussed above primarily consists of personal property.

Pro forma depreciation expense related to property and equipment is calculated on a straight-line basis based on the estimated useful lives of the assets.

1. **Financing Transactions Adjustments**
   1. Reflects the Financing Transactions to fund a portion of the merger consideration as described in Note 2 of the *“Notes to Unaudited Pro Forma* *Condensed Combined Financial Information,”* the payment of debt financing fees and proceeds from the liquidation of Marvell’s short-terminvestments.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  | **Pro Forma** | |
|  |  | **May 5, 2018** | | |
|  |  | **(In thousands)** | |  |
| Cash proceeds from the Financing Transactions | $ | | 1,900,000 |  |
| Debt financing fees paid |  |  | (2,154) | |
| Proceeds from liquidation of short-term investments |  |  | 712,053 |  |
| Net adjustment to cash and cash equivalents |  | $ | 2,609,899 |  |
|  |  |  |  |  |

1. Reflects the liquidation of Marvell’s short-term investments.
2. Reflects the current portion of unamortized debt financing fees on the Revolving Credit Facility. Unamortized debt financing fees on the Revolving Credit Facility of $1.5 million in total have been recognized. In this adjustment, $0.3 million have been recorded to prepaid expenses and other current assets and $1.2 million have been recorded to other non-current assets as described in Note 6(d) of the *“Notes to Unaudited Pro* *Forma Condensed Combined Financial Information”* below.
3. Reflects the non-current portion of unamortized debt financing fees on the Revolving Credit Facility and the reclassification of unamortized debt financing fees on the Financing Transactions, excluding those fees related to the Revolving Credit Facility, to long-term debt.

Unamortized debt financing fees on the Financing Transactions to be reclassifed to long-term debt (1)



Unamortized debt financing fees on the Revolving Credit Facility (2)

Net adjustment to other non-current assets



**Pro Forma**

**May 5, 2018**



**(In thousands)**

* (15,663)

1,240



* (14,423)



* 1. Unamortized debt financing fees on the Financing Transactions, excluding those fees related to the Revolving Credit Facility, of $15.7 million in total have been reclassified from other non-current assets to long-term debt as described in Note 6(e) of the *“Notes to* *Unaudited Pro Forma Condensed Combined Financial Information”* below. The unaudited condensed consolidated balance sheet ofMarvell as of May 5, 2018 reflected these costs as a component of other non-current assets due to the absence of debt, which prevented the unamortized costs from being shown as a direct deduction from long-term debt.
  2. Unamortized debt financing fees on the Revolving Credit Facility of $1.5 million in total have been recognized. In this adjustment, $1.2 million have been recorded to other non-current assets and $0.3 million have been recorded to prepaid expenses and other current assets as described in Note 6(c) of the *“Notes to Unaudited Pro Forma Condensed Combined Financial Information”* above.

1. Reflects the new debt financing from the Financing Transactions, net of unamortized debt financing fees, to fund a portion of the Merger. The following table summarizes the borrowings under the Financing Transactions:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Principal** | | **Assumed** |  | **Unamortized Debt** | |  |  | **Net** | | **Term** | | **Long-Term** | | |  |
|  | **Outstanding** | | | **Interest Rate** |  | **Financing Fees** | |  |  | **Proceeds** | |  | **Debt** | |  |
|  |  |  |  | **(In thousands, except interest rates and terms)** | | | | | | | |  |  |  |  |  |  |
| Senior Unsecured Notes—10yr | $ | 425,000 | | 4.88% | $ | (2,763) | |  | $ | 422,237 | | 10 Years | | $ | 422,237 | |  |
| Senior Unsecured Notes—5yr |  | 425,000 | | 4.23% |  | (2,550) | |  |  | 422,450 | | 5 Years | |  | 422,450 | |  |
| Term Loan Facility |  | 900,000 | | 3.42% |  | (10,954) | |  |  | 889,046 | | 3 Years | |  | 889,046 | |  |
| Revolving Credit Facility |  | 150,000 |  | 3.55% |  | *Refer to footnote (1)* | | |  | 150,000 | | 5 Years | |  | 150,000 | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | $ | 1,900,000 |  |  | $ | (16,267) | | (1) | $ | 1,883,733 | |  |  | $ | 1,883,733 | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Excludes $6.0 million of debt financing fees related to the Bridge Facility and $1.5 million of debt financing fees related to the Revolving Credit Facility. Debt financing fees related to the Bridge Facility will be expensed upon completion of the Merger should no amounts be drawn on the Bridge Facility. Debt financing fees related to the Revolving Credit Facility are capitalized as assets as described in Notes 6(c) and 6(d) of the *“Notes to Unaudited Pro Forma Condensed Combined Financial Information”* above.

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1. Reflects the estimated incremental interest expense and amortization of debt financing fees and original issuance discounts. Debt financing fees related to the Bridge Facility have been excluded from the unaudited pro forma condensed combined statements of operations as it has been determined not to have a continuing impact.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Pro Forma** | |  |  | **Pro Forma** | |  |
|  |  | **Three Months Ended** | | | |  |  | **Year Ended** | |  |
|  |  |  |  | **May 5, 2018** | | **February 3, 2018** | | | |  |
|  |  |  |  | **(In thousands)** | |  |  |  |  |  |
|  | Interest expense on anticipated borrowings | $ | | (18,860) | | $ | | (75,442) | |  |
|  | Amortization of debt financing fees and original issue |  |  |  |  |  |  |  |  |  |
|  | discounts |  |  | (1,154) | |  |  | (4,509) | |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Net adjustment to interest expense | $ | | (20,014) | | $ | | (79,951) | |  |
|  |  |  |  |  |  |  |  |  |  |  |

A sensitivity analysis on interest expense for the year ended February 3, 2018 and three months ended May 5, 2018 have been performed to assess the effect of a change of 0.125% of the hypothetical interest rate would have on the new debt. Stated interest rates related to the Financing Transactions are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Interest Rate** |  |
| Senior Unsecured Notes—10 yr |  | 4.880% | |
| Senior Unsecured Notes—5 yr | 4.230% | | |
| Revolving Credit Facility |  | L + 1.500% | |
| Term Loan |  | L + 1.375% | |

The following table shows the impact of a 0.125% change in interest rate for the Financing Transactions:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Pro Forma** |  | **Pro Forma** | |
|  | **Three Months Ended** | | |  | **Year Ended** | |
|  |  |  | **May 5, 2018** | **February 3, 2018** | | |
|  |  |  | **(In thousands)** |  |  |  |
| **Interest expense assuming:** |  |  |  |  |  |  |
| Increase of 0.125% | $ | | 328 | $ | 1,313 |  |
| Decrease of 0.125% | $ | | (328) | $ | (1,313) | |

1. **Pro Forma Adjustments for Condensed Combined Balance Sheet**
   1. Reflects the payment of estimated merger consideration, the Cavium Term Facility and transaction costs.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | **Pro Forma** | |  |
|  |  |  | **May 5, 2018** | |  |
|  |  |  | **(In thousands)** |  |  |
|  | Cash consideration paid (1) | $ (2,824,435) | | |  |
|  | Cash paid to extinguish the Cavium Term Facility (inclusive of LIBOR contract |  |  |  |  |
|  | breakage amount and accrued interest) | (607,925) | | |  |
|  | Cash paid to settle unvested equity and incentive awards (2) | (8,617) | | |  |
|  | Transaction costs paid (exclusive of debt financing fees paid) |  | (86,525) | |  |
|  |  |  |  |  |  |
| Net adjustment to cash and cash equivalents | $ (3,527,502) | | |  |
|  |  |  |  |  |  |

* 1. Cash consideration paid of $2,824.4 million reflects $2,819.8 million paid to Cavium’s shareholders and $4.6 million paid to cash settle Cavium’s equity awards.
  2. Cash paid to Cavium’s directors of $8.6 million to settle and cancel unvested non-employee director’s RSUs as a result of the Merger.

1. Reflects the purchase accounting adjustment for inventories based on the acquisition method of accounting.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Pro Forma** | |
|  |  |  | **May 5, 2018** | | |
|  |  |  | **(In thousands)** | |  |
|  | Elimination of Cavium’s inventories—carrying value as of March 31, 2018 | $ | | (102,171) | |
|  | Inventories—fair value (1) |  |  | 310,000 |  |
|  | Net adjustment to inventories | $ | | 207,829 |  |
|  |  |  |  |  |  |

1. Represents the adjustment necessary to state inventories acquired as of the pro forma Merger date to their preliminary estimated fair value. The valuation approaches used in the preliminary assessment of the fair value of inventories were the replacement cost approach and the comparative sales method approach. After the Merger, the step up in inventories fair value will increase cost of goods sold as the inventory is sold over approximately two months. This increase is not reflected in the unaudited pro forma condensed combined statements of operations as it was determined to not have a continuing impact.

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1. Reflects the purchase accounting adjustment for property and equipment based on the acquisition method of accounting. Refer to Note 5 of the *“Notes* *to Unaudited Pro Forma Condensed Combined Financial Information”* for additional information on the property and equipment expected to berecognized.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Pro Forma** | |
|  |  |  | **May 5, 2018** | | |
|  |  |  | **(In thousands)** | |  |
|  | Elimination of Cavium’s property and equipment—carrying value as of March 31, |  |  |  |  |
|  | 2018 | $ | | (193,742) | |
|  | Property and equipment—fair value |  |  | 183,000 |  |
|  | Net adjustment to property and equipment | $ | | (10,742) | |
|  |  |  |  |  |  |

1. Reflects the preliminary purchase accounting adjustment for estimated intangibles based on the acquisition method of accounting. Refer to Note 5 of the *“Notes to Unaudited Pro Forma Condensed Combined Financial Information”* for additional information on the acquired intangible assets expected to be recognized.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Pro Forma** | |
|  |  |  | **May 5, 2018** | | |
|  |  |  | **(In thousands)** | |  |
|  | Elimination of Cavium’s intangibles—carrying value as of March 31, 2018 | $ | | (633,017) | |
|  | Intangibles—fair value |  |  | 2,788,400 |  |
|  | Net adjustment to intangible assets, net | $ | | 2,155,383 |  |
|  |  |  |  |  |  |

1. Reflects the elimination of Cavium’s goodwill and the capitalization of the preliminary goodwill for the estimated merger consideration in excess of the fair value of the net assets acquired in connection with the Merger. Refer to Note 5 of the *“Notes to Unaudited Pro Forma Condensed Combined* *Financial Information”* for additional information on the goodwill expected to be recognized.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Pro Forma** | |
|  |  |  | **May 5, 2018** | | |
|  |  |  | **(In thousands)** | |  |
|  | Elimination of Cavium’s goodwill as of March 31, 2018 | $ | | (237,692) | |
|  | Capitalization of preliminary goodwill in connection with the Cavium Acquisition |  |  | 3,556,225 |  |
|  | Net adjustment to goodwill | $ | | 3,318,533 |  |
|  |  |  |  |  |  |

1. Reflects the payment of the portion of accrued transaction costs recognized in accounts payable. Accrued transaction costs of $7.7 million in total have been paid. In this adjustment, $2.8 million have been removed from accounts payable and $4.9 million have been removed from accrued liabilities as described in Note 7(g) of the *“Notes to Unaudited Pro Forma Condensed Combined Financial Information”* below.
2. Reflects the elimination of the current portion of Cavium’s deferred rent, the payment of Cavium’s accrued interest and the payment of a portion of accrued transaction cost.

Elimination of Cavium’s deferred rent as of March 31, 2018 (1)



Payment of accrued interest expense in conjunction with the payment of the Cavium Term Facility

Payment of accrued transaction costs (2)



Net adjustment to accrued liabilities

**Pro Forma**

**May 5, 2018**



**(In thousands)**

* (1,588)

(264)

(4,890)



* (6,742)



1. Deferred rent of $23.0 million in total have been eliminated. In this adjustment, $1.6 million have been removed from accrued liabilities and

$21.4 million have been removed from other non-current liabilities as described in Note 7(k) of the *“Notes to Unaudited Pro Forma Condensed* *Combined Financial Information”* below.

1. Accrued transaction costs of $7.7 million in total have been paid. In this adjustment, $4.9 million have been removed from accrued liabilities and $2.8 million have been removed from accounts payable as described in Note 7(f) of the *“Notes to Unaudited Pro Forma Condensed Combined* *Financial Information”* above.

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1. Reflects the payment of the current portion of the Cavium Term Facility and the elimination of unamortized debt financing fees related to the facility.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Pro Forma** | |
|  |  |  | **May 5, 2018** | | |
|  |  |  | **(In thousands)** | |  |
|  | Payment of Cavium Term Facility | $ | | (6,123) | |
|  | Elimination of debt financing fees on Cavium Term Facility (1) |  |  | 2,845 |  |
|  | Net adjustment to current portion of long-term debt | $ | | (3,278) | |
|  |  |  |  |  |  |

* 1. Debt financing fees of $12.3 million in total have been eliminated. In this adjustment, $2.9 million have been removed from the current portion of long-term debt and $9.4 million have been removed from long-term debt as described in Note 7(i) of the *“Notes to Unaudited Pro Forma* *Condensed Combined Financial Information”* below.

1. Reflects the payment of the non-current portion of the Cavium Term Facility and the elimination of unamortized debt financing fees related to the facility.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Pro Forma** | |
|  |  |  | **May 5, 2018** | | |
|  |  |  | **(In thousands)** | |  |
|  | Payment of Cavium Term Facility | $ | | (601,535) | |
|  | Elimination of debt financing fees on Cavium Term Facility (1) |  |  | 9,404 |  |
|  | Net adjustment to long-term debt | $ | | (592,131) | |
|  |  |  |  |  |  |

* 1. Debt financing fees of $12.3 million in total have been eliminated. In this adjustment, $9.4 million have been removed from long-term debt and $2.9 million have been removed from the current portion of long-term debt as described in Note 7(h) of the *“Notes to Unaudited Pro Forma* *Condensed Combined Financial Information”* above.

1. This adjustment reflects the originating deferred tax liabilities (“DTLs”) resulting from pro forma fair value adjustments of the acquired assets and assumed liabilities based on applicable statutory tax rates for the jurisdictions associated with the respective estimated purchase price allocation. The originating DTLs are primarily related to the preliminary purchase price allocation associated with acquired intangible assets. The estimate of DTLs is preliminary and is subject to change based upon Marvell’s final determination of the fair value of assets acquired and liabilities assumed, by jurisdiction including the final allocation across such legal entities and related jurisdictions.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Pro Forma** | |
|  |  |  | **May 5, 2018** | | |
|  |  |  | **(In thousands)** | |  |
|  | Elimination of Cavium’s deferred tax liability—carrying value as of March 31, 2018 | $ | | (2,751) | |
|  | Deferred tax liability—fair value (1) |  |  | 180,135 |  |
|  | Net adjustment to deferred tax liability | $ | | 177,384 |  |
|  |  |  |  |  |  |

* 1. DTLs have been recognized based on applicable statutory tax rates for the jurisdictions associated with the respective net increase in estimated amortizable identifiable intangible assets. The statutory tax rate was applied, as appropriate, to each adjustment based on the jurisdiction in which the adjustment is expected to occur. Furthermore, tax related adjustments included in the unaudited pro forma condensed combined financial information are based on the tax law in effect during the period for which the unaudited pro forma condensed combined statements of operations is being presented, and therefore contemplates the effects of the Tax Cuts and Jobs Act (“2017 Tax Act”) signed into law on December 22, 2017. Provisional amounts based on management’s reasonable estimates of the effects of the 2017 Tax Act have been reflected in the unaudited pro forma condensed combined financial information, as the full determination of the accounting implications of the 2017 Tax Act has not yet been completed.

1. Reflects the elimination of the non-current portion of Cavium’s deferred rent and the preliminary purchase accounting adjustment for estimated intangibles based on the acquisition method of accounting. Refer to Note 5 of the *“Notes to Unaudited Pro Forma Condensed Combined Financial* *Information”* for additional information on the acquired intangible liabilities expected to be recognized.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Pro Forma** | |
|  |  |  | **May 5, 2018** | | |
|  |  |  | **(In thousands)** | |  |
|  | Elimination of Cavium’s deferred rent (1) | $ | | (21,393) | |
|  | Intangibles—fair value (Above market lease liability) |  |  | 1,900 |  |
|  | Net adjustment to other non-current liabilities | $ | | (19,493) | |
|  |  |  |  |  |  |

1. Deferred rent of $23.0 million in total have been eliminated. In this adjustment, $21.4 million have been removed from other non-current liabilities and $1.6 million have been removed from accrued liabilities as described in Note 7(g) of the *“Notes to Unaudited Pro Forma* *Condensed Combined Financial Information”* above.

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1. Reflects the payment of transaction costs, change in control payments and the elimination of Cavium’s retained earnings after adjustments.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Pro Forma** | |
|  |  |  | **May 5, 2018** | | |
|  |  |  | **(In thousands)** | |  |
|  | Payment of Marvell transaction related costs not accrued as of May 5, 2018 (1) | $ | | (34,865) | |
|  | Payment of Cavium transaction related costs not accrued as of March 31, 2018 (1) |  |  | (43,955) | |
|  | Cash paid to settle unvested equity and incentive awards |  |  | (8,617) | |
|  | Stock-based compensation expense incurred to settle equity and incentive awards |  |  | (38,267) | |
|  | Payment of LIBOR contract breakage amount in conjunction with the payment of the |  |  |  |  |
|  | Cavium Term Facility |  |  | (3) | |
|  | Elimination of Cavium’s retained earnings after adjustments |  |  | 446,605 |  |
|  | Net adjustment to retained earnings | $ | | 320,898 |  |
|  |  |  |  |  |  |

* 1. Marvell and Cavium are expected to incur a total of $134.1 million in transaction related costs. These costs consist of legal advisory, financial advisory, accounting, consulting and financing costs and are not reflected in the unaudited pro forma condensed combined statements of operations because they do not have a continuing effect on the combined company. Approximately $78.9 million has been shown as a pro forma adjustment reducing retained earnings, approximately $17.8 million was related to the Financing Transactions and approximately $37.4 million has been recognized as expense in the historical statements of operations of Marvell and Cavium. Deferred financing fees of $16.3 million related to the Term Loan Facility and Other Senior Unsecured Debt Financing have been shown as a direct deduction from the face amount of the debt. Deferred financing fees of $1.5 million related to the Revolving Credit Facility have been capitalized as assets as described in Notes 6(c) and 6(d) of the *“Notes to Unaudited Pro Forma Condensed Combined Financial Information”* above.

1. Reflects the elimination of Cavium’s historical common stock, additional paid-in capital and accumulated other comprehensive income.
2. Reflects the stock consideration component of the Merger ($0.3 million in common stock and $3,455.0 million in additional paid-in capital).
3. Reflects the one-time expense for the recognition of $38.3 million of stock-based compensation expense incurred to settle Cavium’s outstanding unvested stock-based compensation awards that will be accelerated post-Merger due to change in control provisions. The associated stock-based compensation expense is not reflected in the unaudited pro forma condensed combined statements of operations as it will not have a continuing impact.

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1. **Pro Forma Adjustments for Condensed Combined Statements of Operations**
   1. Reflects the adjustments to eliminate historical depreciation expense, record new depreciation expense based on the fair value of the property and equipment acquired, eliminate historical amortization expense, record new amortization expense based on the fair value of the identifiable acquired intangible assets, eliminate historical stock-based compensation expense and record new stock-based compensation expense due to the equity award replacement and resulting remeasurement of the fair value of stock-based compensation as a result of the Merger.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Pro Forma** | | |  |  |  |  |  |
|  |  |  |  | **Three** | |  |  | **Pro Forma** | |  |
|  |  |  |  | **Months** | |  |  |  |
|  |  |  |  | **Ended** | |  |  | **Year Ended** | |  |
|  |  | **May 5, 2018** | | | | **February 3, 2018** | | | |  |
|  |  |  |  |  |  | **(In thousands)** | | |  |  |
|  | Elimination of Cavium’s depreciation on property and equipment | $ | | (3,835) | | $ | | (19,492) | |  |
|  | Depreciation after fair value adjustment (1) |  |  | 1,195 |  |  |  | 6,642 |  |  |
|  | Elimination of Cavium’s amortization on intangible assets |  |  | (29,711) | |  |  | (114,296) | |  |
|  | Amortization after fair value adjustment (2) |  |  | 76,339 |  |  |  | 299,437 |  |  |
|  | Elimination of historical stock-based compensation expense |  |  | (174) | |  |  | (698) | |  |
|  | Stock-based compensation expense after equity award replacement and fair |  |  |  |  |  |  |  |  |  |
|  | value remeasurement (3) |  |  | 1,092 |  |  |  | 4,844 |  |  |
|  | Net adjustment to cost of goods sold | $ | | 44,906 |  | $ | | 176,437 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |

* 1. Depreciation of property and equipment is based on the estimated remaining useful lives of the assets and is calculated on a straight-line basis. Depreciation expense is allocated among cost of goods sold, research and development and selling, general and administrative expense based upon the nature of the activities associated with the property and equipment acquired. Refer to Note 5 of the *“Notes to* *Unaudited Pro Forma Condensed Combined Financial Information”* for additional information on the useful lives of the property andequipment expected to be recognized.
  2. The amortization of intangible assets is based on the periods over which the economic benefits of the intangible assets are expected to be realized. Amortization expense is allocated among cost of goods sold, research and development and selling, general and administrative expense based on the nature of the activities associated with the intangible assets acquired. Refer to Note 5 of the *“Notes to Unaudited* *Pro Forma Condensed Combined Financial Information”* for additional information on the useful lives of the acquired intangible assetsexpected to be recognized.
  3. Subject to the terms of the Merger Agreement, certain unvested Cavium equity awards will be replaced and converted into unvested equity awards of Marvell common shares.

1. Reflects the adjustments to eliminate historical depreciation expense, record new depreciation expense based on the fair value of the property and equipment acquired, eliminate historical amortization expense, record new amortization expense based on the fair value of the identifiable acquired intangible assets, eliminate historical stock-based compensation expense and record new stock-based compensation expense due to the equity award replacement and resulting remeasurement of the fair value of stock-based compensation as a result of the Merger.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Pro Forma** | |  |  | **Pro Forma** | |  |
|  |  | **Three Months** | | | |  |  |  |
|  |  |  |  | **Ended** | |  |  | **Year Ended** | |  |
|  |  |  | **May 5, 2018** | | | **February 3, 2018** | | | |  |
|  |  |  |  | **(In thousands)** | | | | |  |  |
|  | Elimination of Cavium’s depreciation on property and equipment | $ | | (13,720) | | $ | | (46,727) | |  |
|  | Depreciation after fair value adjustment (1) |  |  | 4,277 |  |  |  | 15,923 |  |  |
|  | Elimination of Cavium’s amortization on intangible assets |  |  | (1,735) | |  |  | (9,035) | |  |
|  | Amortization after fair value adjustment (2) |  |  | 4,458 |  |  |  | 23,670 |  |  |
|  | Elimination of historical stock-based compensation expense |  |  | (2,697) | |  |  | (10,786) | |  |
|  | Stock-based compensation expense after equity award replacement and |  |  |  |  |  |  |  |  |  |
|  | fair value remeasurement (3) |  |  | 11,802 |  |  |  | 50,144 |  |  |
|  | Net adjustment to research and development | $ | | 2,385 |  | $ | | 23,189 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |

1. Depreciation of property and equipment is based on the estimated remaining useful lives of the assets and is calculated on a straight-line basis. Depreciation expense is allocated among cost of goods sold, research and development and selling, general and administrative expense based upon the nature of the activities associated with the property and equipment acquired. Refer to Note 5 of the *“Notes to* *Unaudited Pro Forma Condensed Combined Financial Information”* for additional information on the useful lives of the property andequipment expected to be recognized.
2. The amortization of intangible assets is based on the periods over which the economic benefits of the intangible assets are expected to be realized. Amortization expense is allocated among cost of goods sold, research and development and selling, general and administrative expense based on the nature of the activities associated with the intangible assets acquired. Refer to Note 5 of the *“Notes to Unaudited* *Pro Forma Condensed Combined Financial Information”* for additional information on the useful lives of the acquired intangible assetsexpected to be recognized.
3. Subject to the terms of the Merger Agreement, certain unvested Cavium equity awards will be replaced and converted into unvested equity awards of Marvell common shares.

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1. Reflects the adjustments to eliminate historical depreciation expense, record new depreciation expense based on the fair value of the property and equipment acquired, eliminate historical amortization expense, record new amortization expense based on the fair value of the identifiable acquired intangible assets, eliminate historical stock-based compensation expense, record new stock-based compensation expense due to the equity award replacement and resulting remeasurement of the fair value of stock-based compensation as a result of the Merger and eliminate transaction related costs as they do not have a continuing impact on the unaudited pro forma condensed combined statements of operations.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Pro Forma** | |  |  | **Pro Forma** | |  |
|  |  | **Three Months** | | | |  |  |  |
|  |  |  |  | **Ended** | |  |  | **Year Ended** | |  |
|  |  |  | **May 5, 2018** | | | **February 3, 2018** | | | |  |
|  |  |  |  | **(In thousands)** | | | | |  |  |
|  | Elimination of Cavium’s depreciation on property and equipment | $ | | (3,413) | | $ | | (10,501) | |  |
|  | Depreciation after fair value adjustment (1) |  |  | 1,064 |  |  |  | 3,578 |  |  |
|  | Elimination of Cavium’s amortization on intangible assets |  |  | (1,287) | |  |  | (5,080) | |  |
|  | Amortization after fair value adjustment (2) |  |  | 3,307 |  |  |  | 13,309 |  |  |
|  | Elimination of historical stock-based compensation expense |  |  | (857) | |  |  | (3,432) | |  |
|  | Stock-based compensation expense after equity award replacement and |  |  |  |  |  |  |  |  |  |
|  | fair value remeasurement (3) |  |  | 5,307 |  |  |  | 23,521 |  |  |
|  | Elimination of historical Marvell transaction related costs |  |  | (15,252) | |  |  | (10,265) | |  |
|  | Elimination of historical Cavium transaction related costs |  |  | (682) | |  |  | (11,213) | |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Net adjustment to selling, general and administrative | $ | | (11,813) | | $ | | (83) | |  |
|  |  |  |  |  |  |  |  |  |  |  |

* 1. Depreciation of property and equipment is based on the estimated remaining useful lives of the assets and is calculated on a straight-line basis. Depreciation expense is allocated among cost of goods sold, research and development and selling, general and administrative expense based upon the nature of the activities associated with the property and equipment acquired. Refer to Note 5 of the *“Notes to* *Unaudited Pro Forma Condensed Combined Financial Information”* for additional information on the useful lives of the property andequipment expected to be recognized.
  2. The amortization of intangible assets is based on the periods over which the economic benefits of the intangible assets are expected to be realized. Amortization expense is allocated among cost of goods sold, research and development and selling, general and administrative expense based on the nature of the activities associated with the intangible assets acquired. Refer to Note 5 of the *“Notes to Unaudited* *Pro Forma Condensed Combined Financial Information”* for additional information on the useful lives of the acquired intangible assetsexpected to be recognized.
  3. Subject to the terms of the Merger Agreement, certain unvested Cavium equity awards will be replaced and converted into unvested equity awards of Marvell common shares.

1. Reflects the elimination of Cavium’s historical interest expense and amortization of debt financing fees.
2. This adjustment reflects the income tax expense/benefit effects of the pro forma adjustments based on applicable statutory tax rates for the jurisdictions associated with the respective pro forma adjustments. Because the tax rates used for these pro forma financial statements are an estimate, the blended rate will likely vary from the actual effective rate in periods subsequent to completion of the Merger. Further, the combined company’s ability to use net operating loss carryforwards to offset future taxable income for U.S. federal income tax purposes is subject to limitations. In general under Section 382 of Code, a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its pre-change net operating losses (referred to as “NOLs”) to offset future taxable income. In general, an ownership change occurs if the aggregate stock ownership of certain stockholders (generally 5% stockholders, applying certain look-through rules) increases by more than 50 percentage points over such stockholder’s lowest percentage ownership during the testing period (generally three years). In addition, some of the standards and requirements under ASC Topic 740, *Accounting for Income Taxes* (“ASC 740”), may limit the combined company’s ability to record deferred tax assets relating to originating temporary differences between book and tax basis of income and expense items. Further, these standards may require a valuation allowance to be established against certain existing deferred tax assets of each company as of the date of completion of the transactions contemplated by the Merger Agreement. In addition, a combination of two companies may also cause the ability for certain valuation allowances associated with one of the companies to no longer be necessary because on a combined basis, there may be new sources of future taxable income to support the reversal of pre-existing valuation allowances. Currently, no adjustment to the unaudited pro forma condensed combined financial information has been made as it relates to either limitations the combined company might incur under Section 382 of the Code or ASC 740 or decreases to pre-existing valuation allowances. Furthermore, adjustments to established deferred tax assets and liabilities as well as the recognition of additional deferred tax assets and liabilities may occur in conjunction with the finalization of the purchase accounting and these items could be material. Furthermore, tax related adjustments included in the unaudited pro forma condensed combined financial information are based on the tax law in effect during the period for which the unaudited pro forma condensed combined statements of operations is being presented, and therefore contemplates effects of the 2017 Tax Act signed on December 22, 2017. Provisional amounts based on management’s reasonable estimates of the effects of the 2017 Tax Act have been reflected in the unaudited pro forma condensed combined financial information, as the full determination of the accounting implications of the 2017 Tax Act has not yet been completed.

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (f) | Reflects the adjustments to weighted average shares outstanding. | |  |  |  |  |  |  |
|  |  |  |  | **Pro Forma** |  | **Pro Forma** | |  |
|  |  |  | **Three Months** | |  |  |
|  |  |  |  | **Ended** |  | **Year Ended** | |  |
|  |  |  |  | **May 5, 2018** | **February 3, 2018** | | |  |
|  |  |  |  | **(In thousands)** | | |  |  |
|  |  | **Pro forma basic weighted average shares:** |  |  |  |  |  |  |
|  |  | Historical Marvell weighted average shares outstanding | 497,335 | | 498,008 | |  |  |
|  |  | Issuance of shares to Cavium common shareholders | 153,373 | | 153,373 | |  |  |
|  |  | Issuance of vested Marvell replacement awards to Cavium equity award |  |  |  |  |  |  |
|  |  | holders |  | 1,170 |  | 1,170 |  |  |
|  |  | Pro forma weighted average shares (basic) | 651,878 | | 652,551 | |  |  |
|  | **Pro forma diluted weighted average shares:** | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  | Historical Marvell weighted average shares outstanding | 508,716 | | 509,667 | |  |  |
|  |  | Issuance of shares to Cavium common shareholders | 153,373 | | 153,373 | |  |  |
|  |  | Issuance of vested Marvell replacement awards to Cavium equity award |  |  |  |  |  |  |
|  |  | holders | 1,170 | | 1,170 | |  |  |
|  |  | Issuance of Marvell replacement awards to Cavium equity award holders |  | 9,523 |  | 5,356 |  |  |
|  |  | Pro forma weighted average shares (diluted) | 672,782 | | 669,566 | |  |  |
|  | 19 | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |



**Exhibit 99.5**

**CAVIUM, INC.**

**RISK FACTORS**

**for the Quarter Ended March 31, 2018**

*The following risks and uncertainties may have a material adverse effect on our business, financial condition or results of operations. Investors should carefully consider the risks described below before making an investment decision. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and investors may lose all or part of their investment.*

We have marked with an asterisk (\*) those risks described below that reflect substantive changes from the risks described under “Item 1.A. Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 1, 2018.

**Risks Related to Our Business and Industry**

***The announcement and pendency of our agreement to be acquired by Marvell may have an adverse effect on our business, operating results and our stock price.***

On November 19, 2017, we entered into the Merger Agreement with Marvell. The announcement of the Merger with Marvell could cause a material disruption to our business. Additionally, we are subject to additional risks in connection with the announcement and pendency of the Merger, including, but not limited to, the following:

* market reaction to the announcement of the Merger;
* changes in the respective business, operations, financial position and prospects of either company or the combined company following consummation of the Merger;
* market assessments of the likelihood that the Merger will be consummated;
* the amount of cash and the number of shares of Marvell common stock comprising the per share Merger Consideration will not be adjusted for changes in our business, assets, liabilities, prospects, outlook, financial condition or results of operations during the pendency of the Marvell Merger Agreement, including any successful execution of our current strategy as an independent company or in the event of any change in the market price of, analyst estimates of, or projections relating to, our common stock;
* potential adverse effects on our relationships with our current customers, suppliers and other business partners, or those with which we are seeking to establish business relationships, due to uncertainties about the Merger;
* pursuant to the Marvell Merger Agreement, we are subject to certain restrictions on the conduct of our business prior to consummation of the Merger, which restrictions could adversely affect our ability to realize certain of our business strategies or take advantage of certain business opportunities;
* we have incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the Merger, and many of these fees and costs are payable by us regardless of whether the Merger is consummated;
* potential adverse effects on our ability to attract, recruit, retain and motivate current and prospective employees who may be uncertain about their future roles and relationships with us following the completion of the Merger, and the possibility that our employees could lose productivity as a result of uncertainty regarding their employment following the Merger;
* the pendency and outcome of any legal proceedings that have been or may be instituted against us, our directors, executive officers and others relating to the transactions contemplated by the Marvell Merger Agreement;
* the possibility of disruption to our business, including increased costs and diversion of management time and resources that could otherwise have been devoted to other opportunities that may have been beneficial to us; and

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* interest rates, general market and economic conditions and other factors generally affecting the market prices of Marvell common stock and our common stock.

Since a portion of the Merger Consideration consists of Marvell common stock, our stock price will be adversely affected by a decline in Marvell’s stock price and any adverse developments in Marvell’s business. Changes in Marvell’s stock price and business may result from a variety of factors, including changes in its business operations and changes in general market and economic conditions. These factors are beyond our control.

***The failure of the Merger to be completed, or conditions imposed in connection with obtaining required regulatory clearance, may adversely affect our business and our stock price.***

The Merger is subject to a number of conditions, including, among other things, (i) approval by our shareholders, (ii) approval by Parent’s shareholders of the Parent Share Issuance, (iii) the receipt of certain regulatory clearances, including required clearances from CFIUS, MOFCOM, and the OCCP, (iv) the issuance of shares of Marvell common stock pursuant to the Merger having been registered pursuant to a registration statement filed by Marvell with the SEC and declared effective by the SEC, (v) shares of Marvell common stock issuable pursuant to the Merger having been authorized for listing on NASDAQ,

1. the absence of any order or ruling prohibiting the consummation of the Merger, and (vii) subject to certain exceptions, the accuracy of the other party’s representations and warranties and compliance with covenants. In addition, the obligation of Marvell to consummate the Merger is also subject to the satisfaction or waiver of the condition that no material adverse effect on the Company shall have occurred since the date of the Marvell Merger Agreement. There may also be conditions imposed in connection with obtaining regulatory clearance for the Merger that may reduce the potential benefits of the Merger or impact the business or financial performance of the combined companies going forward, including potential tax consequences and/or changes

in shareholders rights if Marvell makes the determination to re-domesticate as a Delaware corporation or establish a Delaware holding company in connection with its efforts to obtain required regulatory clearances. There can be no assurance that these conditions to the completion of the Offer will be satisfied, or that the Merger will be completed on the proposed terms, within the expected timeframe or at all. In addition, other factors, such as Marvell’s ability to obtain the debt financing it needs to consummate the Merger, may affect when and whether the Merger will occur. If the Merger is not completed, we may be subject to negative publicity or be negatively perceived by the investment or business communities and our stock price could fall to the extent that our current stock price reflects an assumption that the Merger will be completed. Furthermore, if the Merger is not completed, we may suffer other consequences that could adversely affect our business and results of our operations.

***The Merger Agreement with Marvell limits our ability to pursue alternative transactions, and in certain instances requires payment of a termination fee, which could deter a third-party from proposing an alternative transaction.***

The Marvell Merger Agreement contains provisions that, subject to certain exceptions, limit our ability to initiate, solicit or knowingly take any action to facilitate or encourage, or participate or engage in any negotiations, inquiries or discussions with respect to an alternative transaction. In addition, under specified circumstances in which the Marvell Merger Agreement is terminated, we could be required to pay a termination fee of up to $180.0 million. It is possible that these or other provisions in the Marvell Merger Agreement might discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of our company from considering or proposing an acquisition or might result in a potential competing acquirer proposing to pay a lower per share price to acquire our common stock than it might otherwise have proposed to pay.

***Any potential future acquisitions, strategic investments, divestitures, mergers or joint ventures may subject us to significant risks, any of which could harm our business.***

We completed the acquisition of QLogic Corporation on August 16, 2016. Further, in the past, we acquired a number of businesses and assets of companies. We may in the future continue to acquire companies, or assets of companies or invest in other companies that we believe to be complementary to our business including for the purpose of expanding our new product design capacity, introducing new design, market or application skills or enhancing and expanding our existing product lines. While we expect to receive benefits from the acquisitions, there can be no assurance that we will actually realize the benefits on a timely basis or at all. Achieving the anticipated benefits of the acquisition will depend, in part, on our ability to integrate the business and operations successfully and efficiently with our existing business. In addition, acquisitions of companies exposes us to risks, including:

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* difficulties entering new markets or manufacturing in new geographies where we have no or limited direct prior experience;
* coordinating sales and marketing efforts to effectively position the combined company’s capabilities and the direction of product development;
* successfully managing relationships with our combined supplier and customer base;
* coordinating and integrating independent research and development and engineering teams across technologies and product platforms to enhance product development while reducing costs;
* difficulties that may occur in assimilating and integrating complex operations including multiple manufacturing sites, personnel, technologies, and products of acquired companies or businesses;
* the financial return on the acquisition may not support the expenditure incurred to acquire such business or develop the business;
* to the extent we acquire a company with existing products, those products may have lower gross margins than our customary products, which could adversely affect our gross margin and operating results;
* assuming the legal obligations of the acquired business;
* the effect that internal control processes of the acquired business might have on our financial reporting;
* retaining key employees; and
* minimizing the diversion of management attention from other important business objectives.

Acquisitions, divestitures and investment strategies may also result in unanticipated accounting charges or otherwise adversely affect our business, financial condition and results of operation.

If we do not successfully manage these issues and the other challenges inherent in integration, then we may not achieve the anticipated benefits of the acquisition and our revenue, expenses, operating results and financial condition could be materially adversely affected.

We have made, and could make in the future, investments in technology companies, including privately-held companies in a development stage. Many of these private equity investments are inherently risky because the companies’ businesses may never develop, and we may incur losses related to these investments. In addition, we may be required to write down the carrying value of these investments to reflect other-than-temporary declines in their value, which could have a material adverse effect on our financial condition and results of operations.

***\*Our indebtedness could adversely affect our financial condition and our ability to raise additional capital to fund our operations and limit our ability to react to changes in the economy or our industry.***

On August 16, 2016, in connection with our acquisition of QLogic we incurred substantial indebtedness pursuant to a Credit Agreement. The Credit Agreement provides for a $700.0 million Initial Term B Loan Facility. Our obligations under the Credit Agreement are guaranteed by a number of our subsidiaries. The Initial Term B Loan Facility will mature on August 16, 2022 and requires quarterly principal payments, with the balance payable at maturity. On March 20, 2017, we entered into an amendment to the Credit Agreement. The amendment provides for, among other things, a reduction of the interest rate margin on our outstanding Initial Term B Loan Facility by 0.75% per annum. As of March 31, 2018, the outstanding principal balance of the Initial Term B Loan Facility amounted to $607.7 million.

Our substantial indebtedness could have important consequences to us including:

* increasing our vulnerability to adverse general economic and industry conditions;
* requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts, execution of our business strategy, acquisitions and other general corporate purposes;

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* limiting our flexibility in planning for, or reacting to, changes in the economy and the semiconductor industry;
* placing us at a competitive disadvantage compared to our competitors with less indebtedness;
* exposing us to interest rate risk to the extent of our variable rate indebtedness; and
* making it more difficult to borrow additional funds in the future to fund growth, acquisitions, working capital, capital expenditures and other purposes.

The Credit Agreement contains customary events of default upon the occurrence of which, after any applicable grace period, the lenders would have the ability to immediately declare the loans due and payable in whole or in part. In such event, we may not have sufficient available cash to repay such debt at the time it becomes due, or be able to refinance such debt on acceptable terms or at all. Any of the foregoing could materially and adversely affect our financial condition and results of operations.

We receive debt ratings from the major credit rating agencies in the United States. Factors that may impact our credit ratings include debt levels, planned asset purchases or sales and near-term and long-term production growth opportunities. Liquidity, asset quality, cost structure, reserve mix and commodity pricing levels could also be considered by the rating agencies. The applicable margins with respect to the Initial Term B Loan Facility will vary based on the applicable public ratings assigned to the collateralized, long-term indebtedness for borrowed money by Moody’s Investors Service, Inc., Standard & Poor’s Financial Services LLC and any successor to each such rating agency business. A ratings downgrade could adversely impact our ability to access debt markets in the future and increase the cost of current or future debt and may adversely affect our share price.

***Our Credit Agreement imposes restrictions on our business.***

The Credit Agreement contains a number of covenants imposing restrictions on our business. These restrictions may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. The restrictions, among other things, restrict our ability and our subsidiaries’ ability to create or incur certain liens, incur or guarantee additional indebtedness, merge or consolidate with other companies, payment of dividends, transfer or sell assets and make restricted payments. These restrictions are subject to a number of limitations and exceptions set forth in the Credit Agreement. Our ability to meet the liquidity covenant may be affected by events beyond our control.

The foregoing restrictions could limit our ability to plan for, or react to, changes in market conditions or our capital needs. We do not know whether we will be granted waivers under, or amendments to, our Credit Agreement if for any reason we are unable to meet these requirements, or whether we will be able to refinance our indebtedness on terms acceptable to us, or at all.

***Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.***

Our ability to make scheduled payments of the principal of, to pay interest on, and to refinance our debt, depends on our future performance, which is subject to financial, competitive, economic, and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to make necessary capital expenditures or to satisfy our obligations under the Credit Agreement and any future indebtedness that we may incur. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying investments or capital expenditures, selling assets, refinancing or obtaining additional equity capital on terms that may be onerous or highly dilutive. We may not be able to engage in any of these activities or engage in these activities on desirable terms when needed, which could result in a default on our indebtedness.

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***\*We have a limited history of profitability, and we may not achieve or sustain profitability in the future, on a quarterly or annual basis.***

We have a history of losses during certain quarterly or annual periods since our incorporation. As of March 31, 2018, our accumulated deficit was

$446.6 million. We expect to make significant expenditures related to the development of our products and expansion of our business, including research and development and sales and administrative expenses. Additionally, we may encounter unforeseen difficulties, complications, product delays and other unknown factors that may require additional expenditures. As a result of these expenditures, we may not generate sufficient revenue to achieve profitability. Our revenue growth trend may not be sustainable, and accordingly, we may incur losses in the future.

***We expect our operating results to fluctuate, which could adversely affect the price of our common stock.***

We expect our revenues and expense levels to vary in the future, making it difficult to predict our future operating results. In particular, we experience variability in demand for our products as our customers manage their product introduction dates and their inventories. As a portion of our net revenue in each fiscal quarter results from orders booked in that quarter, it is difficult for us to forecast sales levels and historical information may not be indicative of future trends. Further, the market for our Fibre Channel products is mature and has declined during recent periods. The lack of growth in the market for our Fibre Channel products may be the result of a shift in the information technology datacenter deployment model, as more enterprise workloads are moving to cloud datacenters, which primarily use Ethernet solutions as their connectivity protocol. To the extent the market for our Fibre Channel products declines, our quarterly operating results would be negatively impacted.

Factors that could cause our results to fluctuate include, but are not limited to:

* fluctuations in demand, sales cycles, product mix and prices for our products;
* any mergers, acquisitions or divestitures of assets undertaken by us, including the acquisition of QLogic Corporation;
* the variability in lead time between the time when a customer begins to design in one of our products and the time when the customer’s end system goes into production and they begin purchasing our products;
* the forecasting, scheduling, rescheduling or cancellation of orders by our customers;
* our dependence on a few significant customers;
* sales discounts and customer incentives;
* our ability to retain, recruit and hire key executives, technical personnel and other employees in the positions and numbers, and with the experience and capabilities that we need;
* our ability to successfully define, design and release new products in a timely manner that meet our customers’ needs;
* changes in manufacturing costs, including wafer, test and assembly costs, mask costs, manufacturing yields, cost of components and product quality and reliability;
* the timing and availability of adequate manufacturing capacity from our manufacturing suppliers;
* the timing of announcements and introductions of products by our competitors or us;
* future accounting pronouncements and changes in accounting policies;
* actual events, circumstances, outcomes and amounts differing from judgments, assumptions and estimates used in determining the value of certain assets (including the amounts of related valuation allowances), liabilities and other items reflected in our consolidated financial statements;
* the timing of recognition of non-recurring engineering credits. From time to time, we enter into research and development collaboration agreements with certain customers. Subject to the terms of the agreements, the consideration is recognized as a credit to our research and development expenses. The timing of the recognition of such credit may be subject to certain milestones specified in the agreement.
* volatility in our stock price, which may lead to higher stock compensation expenses;
* general economic and political conditions in the countries in which we and our suppliers operate or our products are sold or used;

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* costs associated with litigation, especially related to intellectual property; and
* productivity and growth of our sales and marketing force.

Unfavorable changes in any of the above factors, many of which are beyond our control, could significantly harm our business and results of operations, and therefore our stock price. In addition, a significant portion of our operating expenses are relatively fixed. Therefore, if we are unable to accurately forecast quarterly and annual revenues we could experience budgeting and cash flow management problems, unexpected fluctuations in our results of operations and other difficulties, any of which could make it difficult for us to attain and maintain profitability and could increase the volatility of the market price of our common stock.

***The average selling prices of products in our markets have historically decreased over time and will likely do so in the future, which could harm our revenues and gross profits. Also any increase in the manufacturing cost of our products could reduce our gross margins.***

Average selling prices of semiconductor products in the markets we serve have historically decreased over time. The average unit prices of our products may decline in the future as a result of competitive pricing pressures, increased sales discounts and customer incentives, new product introductions by us or our competitors, or other factors. Our gross profits and financial results will suffer if we are unable to offset any reductions in our average selling prices by reducing our costs, developing new or enhanced products on a timely basis with higher selling prices or gross profits, or increasing our sales volumes. Additionally, because we do not operate our own manufacturing, assembly or testing facilities, we may not be able to reduce our costs rapidly and may not be able to decrease our spending to offset any unexpected shortfall in revenue. If this occurs, our revenue, gross margins and profitability could decline.

***Fluctuations in gross margins, primarily due to the mix of products sold, may adversely affect our financial results.***

Because of the wide price differences among our products, the mix and types of performance capabilities of products sold affect the average selling price of our products and have a substantial impact on our revenue. Generally, sales of higher performance products have higher gross margins than sales of lower performance products. We currently offer both higher and lower performance products in a number of our different product families. If the sales mix shifts towards lower performance, lower margin products, our overall gross margins will be negatively affected and a decrease in our gross margins could adversely affect the market price of our common stock. Fluctuations in the mix and types of our products may also affect the extent to which we are able to recover our fixed costs and investments that are associated with a particular product, and as a result can negatively impact our financial results.

Our gross margins may also be adversely affected by numerous factors, including:

* entry into new markets, which may have lower gross margins;
* changes in manufacturing volumes over which fixed costs are absorbed;
* increased price competition;
* introduction of new products by us or our competitors, including products with advantages in price, performance or features;
* our inability to reduce manufacturing-related or component costs;
* amortization and impairments of purchased intangible assets;
* sales discounts and customer incentives;
* excess inventory and inventory holding charges;
* changes in distribution channels;
* increased warranty costs; and
* acquisitions and dispositions of businesses, technologies or product lines.

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The semiconductor business experiences ongoing competitive pricing pressure from customers and competitors. Accordingly, any increase in the cost of our products, whether by adverse purchase price variances or adverse manufacturing cost variances, may not be able to be passed on to our customers and we may experience reduced gross margins and operating profit. We do not have any long-term supply agreements with our manufacturing suppliers and we typically negotiate pricing on a purchase order by purchase order basis. Consequently, we may not be able to obtain price reductions or anticipate or prevent future price increases from our suppliers.

***We face intense competition and expect competition to increase in the future, which could reduce our revenues, gross margin and/or customer base.***

The market for our products is highly competitive and we expect competition to intensify in the future. This competition could make it more difficult for us to sell our products, and result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses, delayed or reduced customer adoption of our new products, and failure to increase, or the loss of, market share or expected market share, any of which would likely seriously harm our business, operating results and financial condition. For instance, semiconductor products have a history of declining prices as the cost of production is reduced. However, if market prices decrease faster than product costs, gross and operating margins can be adversely affected. In the enterprise, datacenter, service provider, and broadband and consumer markets, we consider our primary competitors to be other companies that provide processor products to one or more of our markets, including NXP Semiconductors N.V. (“NXP Semiconductors”), Intel Corporation (“Intel”), Marvell Technology Group Ltd. (“Marvell”), Qualcomm Incorporated (“Qualcomm”), and Hisilicon Technologies Co., Ltd. (“HiSilicon”). In the high-speed Ethernet adapter and ASIC markets, which include converged networking products such as iSCSI, we compete primarily with Broadcom Limited (“Broadcom”), Mellanox Technologies, Ltd. (“Mellanox”) and Intel. In the traditional enterprise storage Fibre Channel adapter and ASIC markets, our primary competitor is Broadcom. And in the Ethernet switch silicon market, our primary competitors are Broadcom and Mellanox. A few of our current competitors operate their own fabrication facilities and have, and some of our potential competitors could have, longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, sales, marketing and other resources than we have. Should these competitors leverage these competitive advantages, our results of operations could be materially and adversely affected. Potential customers may also prefer to purchase from their existing suppliers rather than a new supplier regardless of product performance or features.

We expect increased competition from other established and emerging companies both domestically and internationally. Our current and potential competitors may also establish cooperative relationships among themselves or with third parties. If so, new competitors or alliances that include our competitors may emerge that could acquire significant market share. In the future, further development by our competitors, and development by our potential competitors, could cause our products to become obsolete.

Further, for several years there has been increased consolidation in our industry. Our customers could acquire current or potential competitors. In addition, competitors could acquire current or potential customers. As a result of such transactions, demand for our products could decrease, which could have a material adverse effect on our revenue and financial condition.

Our ability to compete depends on a number of factors, including:

* our success in identifying new and emerging markets, applications and technologies and developing products for these markets;
* our products’ performance and cost effectiveness relative to that of our competitors’ products;
* our ability to deliver products in large volume on a timely basis at a competitive price;
* our success in utilizing new and proprietary technologies to offer products and features previously not available in the marketplace;
* our ability to recruit design and application engineers and sales and marketing personnel; and
* our ability to protect our intellectual property.

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In addition, we cannot assure you that existing customers or potential customers will not develop their own products, purchase competitive products or acquire companies that have competing products. Any of these competitive threats, alone or in combination with others, could seriously harm our business, operating results and financial condition.

***Our customers may cancel their orders, change production quantities or delay production, and if we fail to forecast demand for our products accurately, we may incur product shortages, delays in product shipments or excess or insufficient product inventory.***

We generally do not obtain firm, long-term purchase commitments from our customers. Because production lead times often exceed the amount of time required to fulfill orders, we often must build in advance of orders, relying on an imperfect demand forecast to project volumes and product mix.

Our demand forecast accuracy can be adversely affected by a number of factors, including inaccurate forecasting by our customers, changes in market conditions, adverse changes in our product order mix and demand for our customers’ products. Even after an order is received, our customers may cancel these orders or request a decrease in production quantities. Any such cancellation or decrease subjects us to a number of risks, most notably that our projected sales will not materialize on schedule or at all, leading to unanticipated revenue shortfalls and excess or obsolete inventory which we may be unable to sell to other customers. Alternatively, if we project customer requirements to be less than the demand that materializes, we may not build enough products, which could lead to delays in product shipments and lost sales opportunities in the near term, as well as force our customers to identify alternative sources, which could affect our ongoing relationships with these customers. In the past, we have had customers dramatically increase their requested production quantities with little or no advance notice. Either underestimating or overestimating demand could lead to insufficient, excess or obsolete inventory, which could harm our operating results, cash flow and financial condition, as well as our relationships with our customers.

***\*We receive a substantial portion of our revenues from a limited number of customers, and the loss of, or a significant reduction in, revenue from one or a few of our major customers would adversely affect our operations and financial condition.***

We receive a substantial portion of our revenues from a limited number of customers. We received an aggregate of approximately 55.2% and 55.2% of our net revenue from our top five customers in the three months ended March 31, 2018 and 2017, respectively. Three customers together accounted for 40.0% and 37.6% of our net revenue in the three months ended March 31, 2018 and 2017, respectively. No other customer accounted for more than 10% of our net revenue in the three months ended March 31, 2018 and 2017. We anticipate that we will continue to be dependent on a limited number of customers for a significant portion of our revenues in the immediate future and that the portion of our revenues attributable to some of these customers may increase in the future. We may not be able to maintain or increase sales to some of our top customers for a variety of reasons, including the following:

* our agreements with our customers do not require them to purchase a minimum quantity of our products;
* some of our customers can stop incorporating our products into their own products with limited notice to us and suffer little or no penalty; and
* many of our customers have pre-existing or concurrent relationships with our current or potential competitors that may affect the customers’ decisions to purchase our products.

In the past, we have relied in significant part on our relationships with customers that are technology leaders in our target markets. We intend to continue expanding these relationships and forming new relationships but we cannot assure you that we will be able to do so. These relationships often require us to develop new products that may involve significant technological challenges. Our customers frequently place considerable pressure on us to meet their tight development schedules. Accordingly, we may need to devote a substantial amount of our resources to our relationships, which could detract from or delay our completion of other important development projects. Delays in development could impair our relationships with our other large customers and negatively impact sales of the products under development.

Major customers also have significant leverage over us and may attempt to change the sales terms, including pricing, customer incentives and payment terms, which could have a material adverse effect on our business, financial condition or results of operations. As our customers are pressured to reduce prices as a result of competitive factors,

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we may be required to contractually commit to price reductions for our products before we know how, or if, cost reductions can be achieved. If we are unable to achieve these cost reductions, our gross margins could decline and such a decline could have a material adverse effect on our business, financial condition or results of operations. In addition, the ongoing consolidation in the technology industry could adversely impact our business. There is a possibility that one of our large customers could acquire one of our current or potential competitors. As a result of such transactions, demand for our products could decrease, which could have a material adverse effect on our business, financial condition and results of operations.

It is also possible that our customers may develop their own product or adopt a competitor’s solution for products that they currently buy from us. If that happens, our sales would decline and our business, financial condition and results of operations could be materially and adversely affected.

The loss of a major customer, a reduction in sales to any major customer or our inability to attract new significant customers could seriously impact our revenue and materially and adversely affect our business, financial condition, and results of operations.

***We may be unsuccessful in developing and selling new products or in penetrating new markets.***

We operate in a dynamic environment characterized by rapidly changing technologies and industry standards and technological obsolescence. Our competitiveness and future success depend on our ability to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost-effective basis. A fundamental shift in technologies in any of our product markets could harm our competitive position within these markets. Our failure to anticipate these shifts, to develop new technologies or to react to changes in existing technologies could materially delay our development of new products, which could result in product obsolescence, decreased revenues and a loss of design wins to our competitors. The success of a new product depends on accurate forecasts of long-term market demand and future technological developments, as well as a variety of specific implementation factors, including:

* timely and efficient completion of process design and transfer to manufacturing, assembly and test processes;
* the quality, performance and reliability of the product;
* competitive pricing of the product; and
* effective marketing, sales and service.

If we fail to introduce new products that meet the demand of our customers or penetrate new markets in which we expend significant resources, our revenues will likely decrease over time and our financial condition could suffer. Additionally, if we concentrate resources on a new market that does not prove profitable or sustainable, our financial condition could decline.

***Adverse changes in general economic or political conditions in any of the major countries in which we do business could adversely affect our operating results.***

As our business has grown to both customers located in the United States as well as customers located outside of the United States, we have become increasingly subject to the risks arising from adverse changes in both domestic and global economic and political conditions. If economic growth in the United States and other countries’ economies slows, the demand for our customers’ products could decline, which would then decrease demand for our products. Furthermore, if economic conditions in the countries into which our customers sell their products deteriorate, some of our customers may decide to postpone or delay some of their development programs, which would then delay their need to purchase our products. This could result in a reduction in sales of our products or in a reduction in the growth of our product sales. Any of these events would likely harm our financial condition and results of operations. This could also make it difficult for us to forecast future revenue and if we do not achieve anticipated levels of revenue our operating results could be adversely affected.

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***The semiconductor and communications industries have historically experienced significant fluctuations with prolonged downturns, which could impact our operating results, financial condition and cash flows.***

The semiconductor industry has historically exhibited cyclical behavior, which at various times has included significant downturns in customer demand. Because a significant portion of our expenses are fixed in the near term or are incurred in advance of anticipated sales, we may not be able to decrease our expenses rapidly enough to offset any unanticipated shortfall in revenues. If this situation were to occur, it could adversely affect our operating results, cash flow and financial condition. Furthermore, the semiconductor industry has periodically experienced periods of increased demand and production constraints. If this happens in the future, we may not be able to produce sufficient quantities of our products to meet the increased demand. We may also have difficulty in obtaining sufficient wafer, assembly and test resources from our subcontract manufacturers. Any factor adversely affecting the semiconductor industry in general, or the particular segments of the industry that our products target, may adversely affect our ability to generate revenue and could negatively impact our operating results.

The communications industry has, in the past, experienced pronounced downturns, and these cycles may continue in the future. To respond to a downturn or weakness in a particular market or geography, customers may slow their research and development activities, cancel or delay new product development, reduce their inventories and take a cautious approach to acquiring our products, which would have a significant negative impact on our business. If this situation were to occur, it could adversely affect our operating results, cash flow and financial condition. In the future, any of these trends may also cause our operating results to fluctuate significantly from year to year, which may increase the volatility of the price of our stock.

***We rely on our customers to design our products into their systems, and the nature of the design process requires us to incur expenses prior to customer commitments to use our products or recognizing revenues associated with those expenses which may adversely affect our financial results.***

One of our primary focuses is on winning competitive bid selection processes, known as “design wins,” to develop products for use in our customers’ products. We devote significant time and resources in working with our customers’ system designers to understand their future needs and to provide products that we believe will meet those needs and these bid selection processes can be lengthy. If a customer’s system designer initially chooses a competitor’s product, it becomes significantly more difficult for us to sell our products for use in that system because changing suppliers can involve significant cost, time, effort and risk for our customers. Thus, our failure to win a competitive bid can result in our foregoing revenues from a given customer’s product line for the life of that product. In addition, design opportunities may be infrequent or may be delayed. Our ability to compete in the future will depend, in large part, on our ability to design products to ensure compliance with our customers’ and potential customers’ specifications. We expect to invest significant time and resources and to incur significant expenses to design our products to ensure compliance with relevant specifications.

We often incur significant expenditures in the development of a new product without any assurance that our customers’ system designers will select our product for use in their applications. We often are required to anticipate which product designs will generate demand in advance of our customers expressly indicating a need for that particular design. Even if our customers’ system designers select our products, a substantial period of time will elapse before we generate revenues related to the significant expenses we have incurred.

The reasons for this delay generally include the following elements of our product sales and development cycle timeline and related influences:

* our customers usually require a comprehensive technical evaluation of our products before they incorporate them into their designs;
* it can take from six months to three years from the time our products are selected to commence commercial shipments; and
* our customers may experience changed market conditions or product development issues.

The resources devoted to product development and sales and marketing may not generate material revenue for us, and from time to time, we may need to write off excess and obsolete inventory if we have produced product in anticipation of expected demand. We may spend resources on the development of products that our customers may not adopt. If we incur significant expenses and investments in inventory in the future that we are not able to recover, and we are not able to compensate for those expenses, our operating results could be adversely affected. In addition, if we sell our products at reduced prices in anticipation of cost reductions but still hold higher cost products in inventory, our operating results would be harmed.

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Additionally, even if system designers use our products in their systems, we cannot assure you that these systems will be commercially successful or that we will receive significant revenue from the sales of our products for those systems. As a result, we may be unable to accurately forecast the volume and timing of our orders and revenues associated with any new product introductions.

***Our products must meet exact specifications, and defects and failures may occur, which may cause customers to return or stop buying our products.***

Our customers generally establish demanding specifications for quality, performance and reliability that our products must meet. However, our products are highly complex and may contain defects and failures when they are first introduced or as new versions are released. If defects and failures occur in our products during or after the design phase, we could experience lost revenues, increased costs, including warranty expense and costs associated with customer support, delays in or cancellations or rescheduling of orders or shipments, product returns or discounts, diversion of management and technical resources or damage to our reputation and brand equity, and in some cases consequential damages, any of which could harm our operating results. In addition, delays in our ability to fill product orders as a result of quality control issues may negatively impact our relationship with our customers.

***Some of our operations and a significant portion of our suppliers, customers and contract manufacturers are located outside of the United States, which subjects us to additional risks, including increased complexity and costs of managing international operations and geopolitical instability.***

We have international sales offices and research and development facilities and we conduct, and expect to continue to conduct, a significant amount of our business with companies located outside the United States, particularly in Asia and Europe. Even customers based in the United States often use contract manufacturers based in Asia to manufacture their systems, and it is the contract manufacturers that often purchase products directly from us. In addition, a significant portion of our suppliers are located outside of the United States. As a result, we face numerous challenges, including:

* increased complexity and costs of managing international operations;
* longer and more difficult collection of receivables;
* difficulties in enforcing contracts generally;
* geopolitical and economic instability and military conflicts;
* limited protection of our intellectual property and other assets;
* compliance with local laws and regulations and unanticipated changes in local laws and regulations, including tax laws and regulations;
* trade and foreign exchange restrictions and higher tariffs;
* travel restrictions;
* timing and availability of import and export licenses and other governmental approvals, permits and licenses, including export classification requirements;
* foreign currency exchange fluctuations relating to our international operating activities;
* transportation delays and limited local infrastructure and disruptions, such as large-scale outages or interruptions of service from utilities or telecommunications providers;
* difficulties in staffing international operations;
* heightened risk of terrorism;
* local business and cultural factors that differ from our normal standards and practices;
* differing employment practices and labor issues;

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* regional health issues and natural disasters; and
* work stoppages.

Our international sales are invoiced in United States dollars and, accordingly, if the relative value of the United States dollar in comparison to the currency of our foreign customers should increase, the resulting effective price increase of our products to such foreign customers could result in decreased sales. In addition, a significant portion of our inventory is purchased from international suppliers, who invoice us in United States dollars. If the relative value of the United States dollar in comparison to the currency of our foreign suppliers should decrease, our suppliers may increase prices, which could result in a decline of our gross margin. Any of the foregoing factors could have a material adverse effect on our business, financial condition or results of operations.

***We outsource our wafer fabrication, assembly, testing, warehousing and shipping operations to third parties, including contract manufacturers, and rely on these parties to produce and deliver our products according to requested demands in specification, quantity, cost and time.***

We rely on third parties, including contract manufacturers, for substantially all of our manufacturing operations, including wafer fabrication, assembly, testing, warehousing and shipping. We depend on these parties to supply us with material of a requested quantity in a timely manner that meets our standards for yield, cost and manufacturing quality. We do not have any long-term supply agreements with our manufacturing suppliers or contract manufacturers. Any problems with our manufacturing supply chain could adversely impact our ability to ship our products to our customers on time and in the quantity required, which in turn could cause an unanticipated decline in our sales and possibly damage our customer relationships.

The fabrication of integrated circuits is a complex and technically demanding process. Our foundries could, from time to time, experience manufacturing defects and reduced manufacturing yields. Changes in manufacturing processes or the inadvertent use of defective or contaminated materials by our foundries could result in lower than anticipated manufacturing yields or unacceptable performance. Many of these problems are difficult to detect at an early stage of the manufacturing process and may be time consuming and expensive to correct. In addition, our manufacturing processes with our foundries are unique and not within the customary manufacturing processes of these foundries, which may lead to manufacturing defects, reduced manufacturing yields and/or increases in manufacturing costs.

Poor yields from our foundries, or defects, integration issues or other performance problems in our products could cause us significant customer relations and business reputation problems, harm our financial results and result in financial or other damages to our customers. Our customers could also seek damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend.

Availability of foundry capacity has in the past been reduced due to strong demand. The ability of each foundry to provide us with semiconductor devices is limited by its available capacity and existing obligations. Foundry capacity may not be available when we need it or at reasonable prices which could cause us to be unable to meet customer needs or delay shipments, which could result in a decline in our sales and harm our financial results. To secure sufficient foundry capacity when demand is high, we may enter into various arrangements with suppliers that could be costly and harm our operating results, such as nonrefundable deposits with or loans to foundries in exchange for capacity commitments and contracts that commit us to purchase specified quantities of integrated circuits over extended periods. We may not be able to make any such arrangement in a timely fashion or at all, and any arrangements may be costly, reduce our financial flexibility, and not be on terms favorable to us. Moreover, if we are able to secure foundry capacity, we may be obligated to use all of that capacity or incur penalties. These penalties may be expensive and could harm our financial results.

A significant portion of our sales are to customers that practice just-in-time order management from their suppliers, which gives us a very limited amount of time in which to process and complete these orders. As a result, delays in our production or shipping by the parties to whom we outsource these functions could reduce our sales, damage our customer relationships and damage our reputation in the marketplace, any of which could harm our business, financial condition and results of operations.

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***Our products are manufactured at a limited number of locations and if we experience manufacturing problems at a particular location, we could experience a delay in obtaining our manufactured products, which could harm our business and reputation.***

Although we use several independent foundries to manufacture substantially all of our semiconductor products, most of our components are not manufactured at more than one foundry at any given time, and our products typically are designed to be manufactured in a specific process at only one of these foundries. Accordingly, if one of our foundries is unable to provide us with components as needed or chooses to significantly change its relationship with us, we could experience significant delays in securing sufficient supplies of those components from other sources, which could have a material adverse effect on our results of operations. In addition, the loss of our largest third-party contract manufacturer could significantly impact our ability to produce products for an indefinite period of time.

Converting or transferring manufacturing from a primary location or supplier to a backup facility could be expensive and could take one to two quarters. During such a transition, we would be required to meet customer demand from our then-existing inventory, as well as any partially finished goods that can be modified to the required product specifications. We do not seek to maintain sufficient inventory to address a lengthy transition period because we believe it is uneconomical to keep more than minimal inventory on hand. Qualifying a new contract manufacturer and commencing volume production is a lengthy and expensive process. Some customers will not purchase any products, other than a limited number of evaluation units, until they qualify the manufacturing line for the product. As a result, we may not be able to meet customer needs during such a transition, which could delay shipments, cause a production delay or stoppage for our customers, result in a decline in our sales and damage our customer relationships.

We cannot assure you that any of our existing or new foundries and manufacturers will be able to produce products with acceptable manufacturing yields, or be able to deliver enough products to us on a timely basis, or at reasonable prices. These and other related factors could impair our ability to meet our customers’ needs and have a material and adverse effect on our operating results, competitive position and relationships with customers.

***We rely on third-party technologies for the development of our products and our inability to use these technologies in the future would harm our ability to remain competitive.***

We rely on third parties for technologies that are integrated into our products, such as wafer fabrication and assembly and test technologies used by our contract manufacturers, as well as licensed MIPS and Arm architecture technologies. If we are unable to continue to use or license these technologies on reasonable terms, or if these technologies fail to operate properly, we may not be able to secure alternatives in a timely manner and our ability to remain competitive would be harmed, which could harm our business, financial condition and results of operations. In addition, if we are unable to successfully license technology from third parties to develop future products, we may not be able to develop such products in a timely manner or at all.

***Sales and purchasing patterns with our customers and suppliers are uneven and subject to seasonal fluctuations.***

A portion of our products are sold to customers who experience seasonality and uneven sales patterns in their own businesses. As a result, we experience similar seasonality and uneven sales and purchasing patterns with certain of our customers and suppliers. We believe the variability in sales and purchasing patterns results from many factors, including:

* spikes in sales during the fourth quarter of each calendar year typically experienced by our customers, which in turn leads to higher sales volume in our fourth quarter;
* the tendency of our customers to close a disproportionate percentage of their sales transactions in the last month, weeks and days of each quarter, which in turn leads to an increase in our sales during those same time periods; and
* strategic purchases, including entering into non-cancelable purchase commitments, by us or our customers in advance of demand to take advantage of favorable pricing or to mitigate risks around product availability.

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This variability makes it extremely difficult to predict the demand and buying patterns of our customers and, in turn, causes challenges for us in sourcing goods and services from our suppliers, adjusting manufacturing capacity, and forecasting cash flow and working capital needs. If we predict demand that is substantially greater than actual customer orders, we will have excess inventory. Alternatively, if customer orders substantially exceed predicted demand, the ability to assemble, test and ship orders received in the last weeks and days of each quarter may be limited, or be completed at an increased cost, which could have a material adverse effect on our business, financial condition or results of operations.

***The loss of any of our key personnel could seriously harm our business, and our failure to attract or retain specialized technical, management or sales and marketing talent could impair our business.***

We believe our future success will depend in large part upon our ability to attract, retain and motivate highly skilled managerial, engineering, sales and marketing personnel. The loss of any key employees or the inability to attract, retain or motivate qualified personnel, including engineers and sales and marketing personnel, could delay the development and introduction of, and harm our ability to sell our products which would materially and adversely affect our business, financial condition and results of operations. For instance, if any of these individuals were to leave our company unexpectedly, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity during the search for and while any successor is integrated into our business and operations. Further, if we are unable to integrate and retain personnel acquired through our various acquisitions, we may not be able to fully capitalize on such acquisitions.

We believe that the market for key personnel in the industries in which we compete is highly competitive and we anticipate that competition for such personnel will increase in the future. Our key technical personnel represent a significant asset and serve as the source of our technological and product innovations. Changes to United States immigration policies that restrict our ability to attract and retain technical personnel may negatively affect our research and development efforts. We may not be successful in attracting, retaining and motivating sufficient numbers of technical personnel to support our anticipated growth.

To date, we have relied primarily on our direct marketing and sales force to drive new customer design wins and to sell our products. Because we are looking to expand our customer base and grow our sales, we will need to hire additional qualified sales personnel in the near term and beyond if we are to achieve revenue growth. The competition for qualified marketing and sales personnel in our industry, and particularly in Silicon Valley, is very intense. If we are unable to hire, train, deploy and manage qualified sales personnel in a timely manner, our ability to grow our business will be impaired. In addition, if we are unable to retain our existing sales personnel, our ability to maintain or grow our current level of revenues will be adversely affected.

We rely on stock-based awards as one means for recruiting, motivating and retaining highly skilled talent. If the value of the stock awards does not appreciate as measured by the performance of the price of our common stock or if our share-based compensation otherwise ceases to be viewed as a valuable benefit, our ability to attract, retain, and motivate employees could be weakened, which could harm our business, financial condition and results of operations.

***We are subject to governmental export and import controls that may adversely affect our business.***

We and our customers are subject to various import and export laws and regulations. Government export regulations apply to the encryption or other features contained in some of our products. Although our processes and procedures are designed to maintain compliance, we cannot assure you that we have been or will be at all times in complete compliance with these laws and regulations. On January 30, 2015, we submitted an initial notification of a voluntary self-disclosure to the United States Department of Commerce, Bureau of Industry and Security, or BIS. The notification reported our discovery that hardware and software, with encryption functionality, may have been exported without the required BIS export license. With the assistance of outside counsel, we conducted a review of past export transactions during the past five years, and on July 17, 2015, we reported our findings in a full voluntary self-disclosure to BIS. The findings reported that we exported certain encryption hardware and software to fifteen government end-users in the People’s Republic of China, Taiwan, Hong Kong, Singapore, India and South Korea, as well as one party on BIS’ entity list, without the required BIS export license. The aggregate billings for the reported exports were not material. The disclosure also addressed our remedial and corrective actions. BIS is reviewing our voluntary self-disclosure and we are cooperating fully with BIS. Violations of the export control laws may result in civil, administrative or criminal fines or penalties, loss of export privileges, debarment or a combination of these penalties. At this time we are unable to determine the outcome of the government’s investigation or its possible effect on the Company.

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If we fail to receive licenses or otherwise comply with import and export laws and regulations, we may be unable to manufacture the affected products at foreign foundries or ship these products to some customers; we may be subject to investigations or notices of non-compliance; we may incur penalties or fines and civil and criminal liabilities or other sanctions; or we may experience adverse publicity and reputational damage. In addition, changes in import or export laws and regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products or cause decreased use of our products by customers with international operations, each of which would adversely affect our business and results of operations.

***Changes in and compliance with regulations could materially and adversely affect us.***

Our business, results of operations or financial condition could be materially and adversely affected if new laws, regulations or standards relating to us or our products are implemented or existing ones are changed, including laws, regulations or standards affecting licensing practices, competitive business practices, the use of our technology or products, protection of intellectual property, trade, foreign investments or loans, taxation, privacy and data protection, environmental protection or employment. In addition, our compliance with existing regulations may have a material adverse impact on us. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was enacted in 2010. There are significant corporate governance and executive compensation related provisions in the Dodd-Frank Act, including the disclosure requirements relating to the sourcing of so-called conflict minerals from the Democratic Republic of Congo and certain other adjoining countries. Our disclosures regarding conflict minerals have been and will be predicated upon the timely receipt of accurate information from suppliers, who may be unwilling or unable to provide us with the relevant information, which may harm our reputation and our relationships with our customers. In addition, these requirements could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of our products.

We are subject to laws, rules and regulations in the United States and other countries relating to the collection, use and security of personal information and data. We have incurred, and will continue to incur, expenses to comply with privacy and security standards, protocols and obligations imposed by applicable laws, regulations, industry standards and contracts. Any inability to comply with applicable privacy or data protection laws, regulations or other obligations, could result in significant cost and liability, damage our reputation, and adversely affect our business.

Under applicable federal securities laws, including the Sarbanes-Oxley Act of 2002, we are required to evaluate and determine the effectiveness of our internal control structure and procedures for financial reporting. Should we or our independent auditors determine that we have material weaknesses in our internal controls, our business, financial condition or results of operations may be materially and adversely affected and our stock price may decline.We may not be able to effectively and timely implement necessary control changes and employee training to ensure continued compliance with the Sarbanes-Oxley Act and other regulatory and reporting requirements. Our rapid growth in recent years, including through acquisitions, and our possible future expansion through acquisitions, present challenges to maintain the internal control and disclosure control standards applicable to public companies. If we fail to maintain effective internal controls, we could be subject to regulatory scrutiny and sanctions and investors could lose confidence in the accuracy and completeness of our financial reports.

In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by regulations applicable to us, such as the Foreign Corrupt Practices Act and other anti-bribery laws. Although we have policies and procedures designed to ensure compliance with these laws, our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies. Any such violation, even if prohibited by our policies, could have a material adverse effect on our business, financial condition or results of operations.

We face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the chemical and material composition of our products, their safe use, the energy consumption associated with those products and product take-back legislation (i.e., legislation that makes producers of electrical goods financially responsible for specified collection, recycling, treatment and disposal of past and future covered products). We could incur substantial costs, our products could be restricted from entering certain jurisdictions, and we could face other sanctions, if we were to violate or become liable under environmental laws or if our products become non-compliant with environmental laws.

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***The migration of our customers toward new products could adversely affect our results of operations.***

As new or enhanced products are introduced, we must successfully manage the transition from older products in order to minimize the effects of product inventories that may become excess and obsolete, as well as ensure that sufficient supplies of new products can be delivered to meet customer demand. Our failure to manage the transition to newer products in the future could adversely affect our business or results of operations. When we introduce new products and product enhancements, we face additional risks relating to product transitions, including risks relating to forecasting demand and longer lead times associated with smaller product geometries and more complex production operations. Any such adverse event or increased costs could have a material adverse effect on our business, financial condition or results of operations.

***In the event one of our distributor arrangements terminates, it could lead to a loss of revenues and possible product returns.***

A portion of our sales is made through third-party distribution agreements. Termination of a distributor relationship, either by us or by the distributor, could result in a temporary loss of revenues until a replacement distributor can be established to service the affected end-user customers, or a permanent loss of revenues if no replacement can be established. We may not be successful in finding suitable alternative distributors on satisfactory terms or at all and this could adversely affect our ability to sell in some locations or to some end-user customers. Additionally, if we terminate our relationship with a distributor, we may be obligated to repurchase unsold products. We record a reserve for estimated returns and price credits. If actual returns and credits exceed our estimates, our operating results could be harmed.

***Our failure to protect our intellectual property rights adequately could impair our ability to compete effectively or to defend ourselves from litigation, which could harm our business, financial condition and results of operations.***

We rely primarily on patent, copyright, trademark and trade secret laws, as well as confidentiality and nondisclosure agreements and other methods, to protect our proprietary technologies and know-how. There can be no assurance that these protections will be adequate to protect our proprietary rights, that others will not independently develop or otherwise acquire equivalent or superior technology, or that we can maintain such technology as trade secrets.

The failure of our patents and other intellectual property protections to adequately protect our technology might make it easier for our competitors to offer similar products or technologies, which would harm our business. For example, our patents could be opposed, contested, circumvented or designed around by our competitors or be declared invalid or unenforceable in judicial or administrative proceedings. Our foreign patent protection is generally not as comprehensive as our United States patent protection and may not protect our intellectual property in some countries where our products are shipped, sold or may be sold in the future. Many United States-based companies have encountered substantial intellectual property infringement in foreign countries, including countries where we sell products. Even if foreign patents are granted, effective enforcement in foreign countries may not be available.

We enter into confidentiality agreements with our employees, consultants and strategic partners. We also control access to and distribution of our technologies, documentation and other proprietary information. However, internal or external parties may copy, disclose, obtain or use our proprietary information without our authorization. Further, current or former employees or third parties may attempt to misappropriate our proprietary information.

Monitoring unauthorized use of our intellectual property and the intellectual property of our customers and strategic partners is difficult and costly. It is possible that unauthorized use of our intellectual property may have occurred or may occur without our knowledge. We cannot assure you that the steps we have taken will prevent unauthorized use of our intellectual property.

Our failure to effectively protect our intellectual property could reduce the value of our technology in licensing arrangements or in cross-licensing negotiations, and could harm our business, financial condition, and results of operations. We may in the future need to initiate infringement claims or litigation to defend or enforce our intellectual property rights. Litigation, whether we are a plaintiff or a defendant, can be expensive, time consuming and may divert the efforts of our technical staff and managerial personnel, which could harm our business, whether or not such litigation results in a determination favorable to us.

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***Assertions by third parties of infringement by us of their intellectual property rights could result in significant costs and cause our operating results to suffer.***

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights and positions, which has resulted in protracted and expensive litigation for many companies. From time to time we receive communications that allege we have infringed specified patents, trade secrets or other intellectual property rights owned by others. Any of these allegations, regardless of merit, could cause us to incur significant costs in responding to, defending and resolving these allegations. Any lawsuits resulting from these allegations could subject us to significant liability for damages and invalidate our proprietary rights. Any potential intellectual property infringement allegations or litigation also could force us to do one or more of the following:

* stop selling products or using technology that contain the allegedly infringing intellectual property;
* lose the opportunity to license our technology to others or to collect royalty payments based upon successful protection and assertion of our intellectual property against others;
* incur significant legal expenses;
* pay substantial damages or settlement amounts to a third-party;
* redesign those products that contain the allegedly infringing intellectual property; or
* attempt to obtain a license to the relevant intellectual property from third parties, which may not be available on reasonable terms or at all.

Any significant impairment of our intellectual property rights from any litigation we face could harm our business and our ability to compete.

Our customers have in the past and may in the future also become the target of allegations of infringement or litigation relating to the patent and other intellectual property rights of others. This could trigger technical support and indemnification obligations in some of our licenses or customer agreements. These obligations could result in substantial expenses, including the payment by us of costs and damages relating to claims of intellectual property infringement. In addition to the time and expense required for us to provide support or indemnification to our customers, litigation could disrupt the businesses of our customers, which in turn could hurt our relationships with our customers and cause the sale of our products to decrease. We cannot assure you that claims for indemnification will not be made or that if made, the claims would not have a material adverse effect on our business, operating results or financial conditions.

***A breach of our security systems or a cyber-attack may have a material adverse effect on our business.***

Our security systems are designed to maintain the physical security of our facilities and protect our customers’, suppliers’ and employees’ confidential information. However, we are also dependent on a number of third-party “cloud-based” service providers of critical corporate infrastructure services relating to, among other things, human resources, electronic communication services and some finance functions, and we are, of necessity, dependent on the security systems of these providers. Accidental or willful security breaches, including cyber-attacks, or other unauthorized access by third parties to our facilities, our information systems or the systems of our cloud-based service providers or the existence of computer viruses in our or their data or software could expose us to a risk of information loss and misappropriation of proprietary and confidential information. Any theft or misuse of this information could result in, among other things, unfavorable publicity, damage to our reputation, disclosure of our intellectual property and/ or confidential customer, supplier or employee data, difficulty in marketing our products, allegations by our customers that we have not performed our contractual obligations, litigation by affected parties and possible financial obligations for liabilities and damages related to the theft or misuse of this information, any of which could have a material adverse effect on our business, profitability and financial condition. Since the techniques used to obtain unauthorized access or to sabotage systems change frequently and are often not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

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***We may need to raise additional capital, which might not be available or which, if available, may be on terms that are not favorable to us.***

We believe our existing cash and cash equivalent balances and cash expected to be generated from our operations will be sufficient to meet our working capital, capital expenditures and other needs for at least the next 12 months. In the future, we may seek to raise additional funds, and we cannot be certain that we will be able to obtain additional financing on favorable terms, if at all. If we issue equity securities to raise additional funds, the ownership percentage of our stockholders would be reduced, and the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. We may also increase our debt in the future for which we may incur additional significant interest charges, which could harm our profitability. Holders of debt would also have rights, preferences or privileges senior to those of existing holders of our common stock. If we cannot raise needed funds on acceptable terms, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, which could harm our business, operating results and financial condition.

***We rely on our ecosystem partners to enhance our product offerings and our inability to continue to develop or maintain these relationships in the future would harm our ability to remain competitive.***

We have developed relationships with third parties, which we refer to as ecosystem partners, which provide operating systems, tool support, reference designs and other services designed for specific uses with our SoCs. We believe that these relationships enhance our customers’ ability to get their products to market quickly. If we are unable to continue to develop or maintain these relationships, we may not be able to enhance our customers’ ability to commercialize their products in a timely fashion and our ability to remain competitive would be harmed, which would negatively impact our ability to generate revenue and our operating results.

***If we fail to carefully manage the use of “open source” software in our products, we may be required to license key portions of our products on a royalty-free basis or expose key parts of our source code.***

Certain of our software may be derived from “open source” software that is generally made available to the public by its authors and/or other third parties. Such open source software is often made available to us under licenses, such as the GNU General Public License, that impose certain obligations on us in the event we were to distribute derivative works of the open source software. These obligations may require us to make source code for the derivative works available to the public and license such derivative works under a particular type of license, rather than the forms of licenses customarily used to protect our intellectual property. In the event the copyright holder of any open source software were to successfully establish in court that we had not complied with the terms of a license for a particular work, we could be required to release the source code of that work to the public or stop distributing that work.

***Our facilities and the facilities of our suppliers, third-party contractors and customers are located in regions that are subject to natural disasters and other risks. Any disruption to the operations of these could cause significant delays in the production or shipment of our products.***

Our California facilities, including our principal executive offices, are located near major earthquake faults. Any personal injury at, or damages to, the facilities as a result of such occurrences could have a material adverse effect on our business, results of operations or financial condition. Additionally, a substantial portion of our products are manufactured by third-party contractors located in the Asia-Pacific (or APAC) region. The risk of an earthquake in the APAC region is significant due to the proximity of major earthquake fault lines to the facilities of our foundries and assembly and test subcontractors. For example, several major earthquakes have occurred in Taiwan and Japan since our incorporation in 2000, the most recent being the major earthquake and tsunami that occurred in March 2011 in Japan. Although our third-party contractors did not suffer any significant damage as a result of these most recent earthquakes, the occurrence of additional earthquakes or other events causing closures could result in the disruption of our foundry or assembly and test capacity.

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We have additional operations, suppliers, third-party contractors and customers in regions that have historically experienced natural disasters. Any disruption resulting from a natural disaster could cause significant delays in the production or shipment of our products which could adversely affect our business, results of operations and financial condition. Further, as a result of a natural disaster, our major customers may face shortages of components that could negatively impact their ability to build the devices into which our products are integrated, thereby negatively impacting the demand for our products even if the supply of our products is not directly affected by the natural disaster.

***We may experience difficulties in transitioning to new wafer fabrication process technologies or in achieving higher levels of design integration, which may result in reduced manufacturing yields, delays in product deliveries and increased expenses.***

To remain competitive, we expect to continue to transition our semiconductor products to increasingly smaller line width geometries. This transition requires us to modify our designs to work with the manufacturing processes of our foundries. We periodically evaluate the benefits, on a product-by-product basis, of migrating to new process technologies to reduce cost and improve performance. We may face difficulties, delays and expenses as we continue to transition our products to new processes. We are dependent on our relationships with our foundry contractors to transition to new processes successfully. We cannot assure you that the foundries that we use will be able to effectively manage the transition or that we will be able to maintain our existing foundry relationships or develop new ones. If any of our foundry contractors or we experience significant delays in this transition or fail to efficiently implement this transition, we could experience reduced manufacturing yields, delays in product deliveries and increased expenses, all of which could harm our relationships with our customers and our results of operations. As new processes become more prevalent, we expect to continue to integrate greater levels of functionality, as well as customer and third-party intellectual property, into our products. However, we may not be able to achieve higher levels of design integration or deliver new integrated products on a timely basis.

***We may incur impairments to goodwill or long-lived assets.***

We review our long-lived assets, including goodwill and other intangible assets, for impairment annually in the fourth quarter or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Significant negative industry or economic trends, including a significant decline in the market price of our common stock, reduced estimates of future cash flows for our reporting units or disruptions to our business could lead to an impairment charge of our long-lived assets, including goodwill and other intangible assets.

Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance. If our actual results, or the plans and estimates used in future impairment analyses are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges. We operate in highly competitive environments and projections of future operating results and cash flows may vary significantly from results. Additionally, if our analysis results in impairment to our goodwill, we may be required to record a charge to earnings in our financial statements during a period in which such impairment is determined to exist, which may negatively impact our business, financial condition and results of operations.

***Our future effective tax rates could be affected by the allocation of our income among different geographic regions, which could affect our future operating results, financial condition and cash flows.***

As a global company, we are subject to taxation in the United States and various other countries and states. Significant judgment is required to determine and estimate worldwide tax liabilities. We may further expand our international operations and staff to better support our international markets. As a result, we anticipate that our consolidated pre-tax income will be subject to tax at relatively lower tax rates when compared to the United States federal statutory tax rate. Further, because we have established valuation allowance against our deferred tax assets in the United States, combined with lower foreign tax rates, our effective income tax rate is expected to be lower than the United States federal statutory rate. Our future effective income tax rates could be adversely affected if tax authorities were to successfully challenge our international tax structure or if the relative mix of United States and international income changes for any reason, or United States or foreign tax laws were to change. Accordingly, there can be no assurance that our income tax rate will continue to be less than the United States federal statutory rate.

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Any significant change in our future effective tax rates could adversely impact our consolidated financial position, results of operations and cash flows. Our future effective tax rates may be adversely affected by a number of factors including:

* changes in tax laws in the countries in which we operate or the interpretation of such laws including the Base Erosion Profit Shifting, or BEPS, project being conducted by the Organization for Economic Co-operation and Development and the appeal of the United States tax court’s recent opinion on the exclusion of stock compensation expense in inter-company cost sharing arrangements;
* increase in expenses not deductible for tax purposes;
* changes in share-based compensation expense;
* change in the mix of income among different taxing jurisdictions;
* audit examinations with adverse outcomes;
* changes in generally accepted accounting principles; and
* our ability to use tax attributes such as research and development tax credits and net operating losses.

In December 2017, both houses of the U.S. Congress passed legislation that was approved and signed into law. This legislation could have a material benefit or material adverse impact on our effective tax rate, tax expense and cash flows in the future. Any benefits associated with lower U.S. corporate tax rates could be reduced or outweighed by other tax changes adverse to our business or operations, such as new or additional taxes imposed on earnings and/or reinvested earnings of our foreign subsidiaries. The aggregate impact of such legislation could have a material adverse impact on our cash flows and results of operations.

We are subject to examination of our income tax returns by the United States Internal Revenue Service and other tax authorities, which may result in the assessment of additional income taxes. Although we reserve for uncertain tax positions, including related penalties and interest, the amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and therefore could have a material impact on our tax provision, net income and cash flows. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to record additional income tax expense or establish an additional valuation allowance, which could materially impact our financial position and results of operations.

***Changes in valuation allowance of deferred tax assets may affect our future operating results***

We record a valuation allowance to reduce our net deferred tax assets to the amount that we believe is more-likely-than-not to be realized. In assessing the need for a valuation allowance, we consider historical levels of income, expectations and risks associated with estimates of future taxable income. We periodically evaluate our deferred tax asset balance for realizability. To the extent we believe it is more-likely-than-not that some portion of our deferred tax assets will not be realized, we will increase the valuation allowance against the deferred tax assets. Realization of our deferred tax assets is dependent primarily upon future taxable income in related tax jurisdictions. If our assumptions and consequently our estimates change in the future, the valuation allowances may be increased or decreased, resulting in a respective increase or decrease in income tax expense.

**Risks Related to our Common Stock**

***The market price of our common stock may be volatile, which could cause the value of your investment to decline.***

The market price of our common stock has fluctuated substantially and there is no assurance that such volatility will not continue. Several factors that could impact our stock price are:

* quarterly variations in our results of operations or those of our competitors;
* changes in financial estimates including our ability to meet our future revenue and operating profit or loss projections;
* general economic conditions and slow or negative growth of related markets;

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* announcements by us or our competitors of design wins, acquisitions, new products, significant contracts, commercial relationships or capital commitments;
* our ability to develop and market new and enhanced products on a timely basis;
* commencement of, or our involvement in, litigation;
* disruption to our operations;
* the emergence of new sales channels in which we are unable to compete effectively;
* any major change in our board of directors or management;
* changes in governmental regulations; and
* changes in earnings estimates or recommendations by securities analysts.

Furthermore, the stock market in general, and the market for semiconductor and other technology companies in particular, have experienced price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our actual operating performance. These trading price fluctuations may also make it more difficult for us to use our common stock as a means to make acquisitions or to use our common stock to attract and retain employees. In addition, in the past, following periods of volatility in the overall market and the market price of a company’s securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management’s attention and resources.

***Delaware law and our amended and restated certificate of incorporation and bylaws contain provisions that could delay or discourage takeover attempts that stockholders may consider favorable.***

Provisions in our amended and restated certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

* the division of our board of directors into three classes;
* the right of the board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or due to the resignation or departure of an existing board member;
* the prohibition of cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
* the requirement for the advance notice of nominations for election to the board of directors or for proposing matters that can be acted upon at a stockholders’ meeting;
* the ability of our board of directors to alter our bylaws without obtaining stockholder approval;
* the ability of the board of directors to issue, without stockholder approval, up to 10,000,000 shares of preferred stock with terms set by the board of directors, which rights could be senior to those of our common stock;
* the elimination of the rights of stockholders to call a special meeting of stockholders and to take action by written consent in lieu of a meeting;
* the required approval of at least 66 2/3% of the shares entitled to vote at an election of directors to adopt, amend or repeal our bylaws or repeal the provisions of our amended and restated certificate of incorporation regarding the election and removal of directors and the inability of stockholders to take action by written consent in lieu of a meeting; and
* the required approval of at least a majority of the shares entitled to vote at an election of directors to remove directors without cause.

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In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, particularly those owning 15% or more of our outstanding voting stock, from merging or combining with us. These provisions in our amended and restated certificate of incorporation and bylaws and under Delaware law could discourage potential takeover attempts, could reduce the price that investors are willing to pay for shares of our common stock in the future and could potentially result in the market price being lower than they would without these provisions.

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